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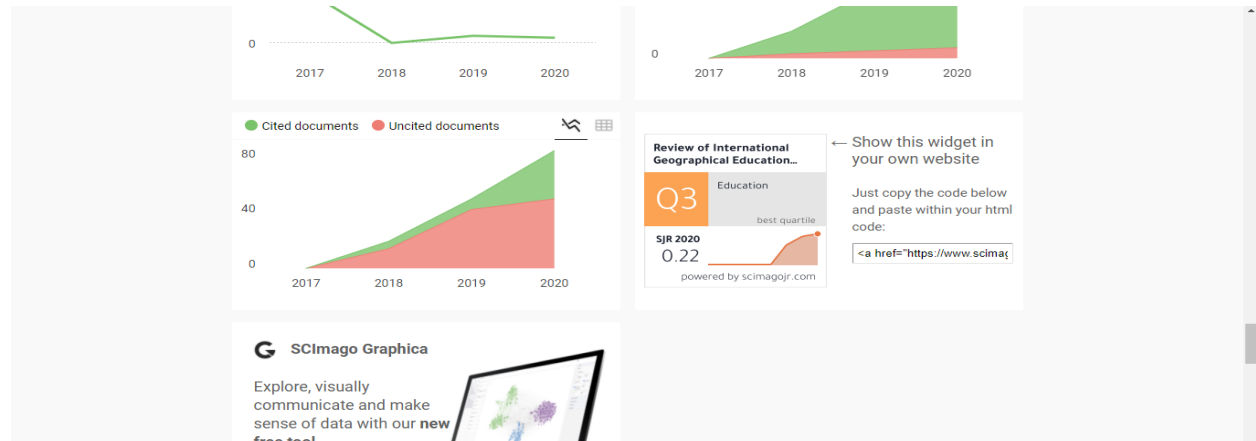
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Strategy for Implementing Short-Term Milestones in Library Management During the Covid-19 Pandemic

Endang Fatmawati
1310-1319

- **Ecological Ethics: Towards A Sustainable Environmental Balance in The Biosphere. Sustainable Development Goals (Sdg's) In Perspective**

Akpezi Okiemute EDEWOR
1320-1327

- **The Impact of Intellectual Capital and Disclosure on Firm Value**

I Dewa Ayu Nyoman Stari Dewi ,Ni Made Dwi Ratnadi ,Ni Ketut Rasmini ,Gerianta
Wirawan Yasa
1328-1336

- **How Indonesian Millennial Generations Communicate on social media**

Sri Hapsari Wijayanti ,Kasdin Sihotang
1337-1350

- **A Study on the Construction Path of Innovation and Entrepreneurship Environment in Zheng Luo Xin National Innovation Demonstration Zone - Based on the Perspective of Engineering Technology Center Construction**

Wang Ke
1351-1358

- **Role of Creativity in Problem Solving – A Review**

Abirami Swaminathan ,Dr. Maya Rathnasabapathy
1359-1367

- **Role of Malaysia TVET Teachers' Training Institutions toward Industry and Education 4.0**

MA Aripin ,MHM Hisham ,MIZ Zainuddin ,MR Pairan ,MZA Hamid ,Samer Ali Al-Shami
1368-1375

- **Roles of Local Administrative Organizations in Life Quality Development of Elderly People in Special Economic Zone of Nakhon Phanom**

Worawut Inthanon
1376-1384

The Impact of Intellectual Capital and Disclosure on Firm Value

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Abstract

The purpose of this research is to look into and evaluate the impact of intellectual capital and intellectual capital disclosure on the value of a company. During the period 2014-2019, the research was performed on all financial and telecoms sector firms listed on the Indonesia Stock Exchange. In this research, a non-probability sampling approach with a purposive sampling methodology is used to determine the sample size. In this research, 234 business annual reports were used as examples. Two independent sample averages (t-test) and multiple linear regression were utilised as analytical techniques in this study. The findings revealed that intellectual capital disclosure differed across firms in the finance and telecoms sectors. Companies that can enhance the efficiency of intellectual capital and the disclosure of intellectual capital in the annual report may raise the firm's worth.

Introduction

The competitiveness of a company's present and future performance, as well as the development of corporate value, is determined by intellectual capital (Lusda, Wijayanto, & Hakim, 2017). This is backed by the Resource-Based Theory (RBT), which argues that a company's resources may provide it a competitive edge and allow it to drive excellent long-term performance. Intangible resource management may assist businesses in gaining a competitive edge, increasing productivity, and increasing market value. The company's resources, both physical and intangible, will influence its performance and, in turn, enhance the firm's worth (Ulum, Tenrisumpala, & Wahyuni, 2016). The Value Added Intellectual Coefficient is one way of determining how much intellectual capital a firm has (VAICTM). The primary goal of a knowledge-based company, according to Pulic (1998), is to generate Value Added, and in order to do so, it requires the proper measurement of Physical Capital and Intellectual Potential (Human Capital and Structural Capital).

There has been research on intellectual capital as one of the variables that may influence company value. However, the findings of certain studies are still inconclusive. (Ariyani, Nayana, Saregar, Yuberti et al., 2018) and (Fitriasari, (2019)) discovered that intellectual capital has a positive impact on firm value, indicating that businesses that can effectively manage their intellectual capital will enhance firm value. In contrary to the findings of (Wergiyanto, 2016) and (Lestari & Munandar, 2017), intellectual capital has a negative impact on firm value. This is because only one of the three components of intellectual capital, VACE (value added capital employed), is considered when determining firm value. In addition, Indonesian investors are suspected of not responding to information regarding intellectual capital because investors believe that the firm value is influenced by factors other than intellectual capital. Research conducted by (Hakim, 2016) and (Josephine, Trisnawati, & Setijaningsih, 2019) found that intellectual capital has no effect on firm value, this is because the market does not give a higher value to the value of companies that have high intellectual capital. This is because there is no standard that regulates the quantitative measurement of intellectual capital and there are no rules governing the intellectual capital disclosure in financial statements.

Intellectual capital disclosure in a company's annual report serves as a warning to prospective investors about the company's intangible assets. Intellectual capital disclosure differentiates high-quality businesses from low-quality companies, especially for those with a substantial intellectual capital foundation (Ulum et al., 2016). Agents' voluntary disclosure of intellectual capital to principals is known as intellectual capital disclosure. According to the Resource-based Theory (RBT), disclosing all intellectual capital-related activities in the annual report is a business resource that may be utilised to draw stakeholders' attention (Hatane, Angeline, Wedysiage, & Saputra, 2019). Companies that voluntarily provide intellectual capital information to investors or prospective investors in order to minimise knowledge asymmetry between management and investors. Reduced information asymmetry will boost the firm's worth (Suaryana, 2019). Indonesia is one of several nations that is said to hold approximately half of their company's intangible assets that aren't publicly acknowledged. Given that a company's future wealth creation is determined by its intellectual capital, (voluntary) disclosure in annual reports conveys a company's superior worth to the capital market (Whiting & Miller, 2008).

Several studies on the intellectual capital disclosure on firm value have been carried out, but the results of these studies are still inconsistent. Research conducted by (Subaida, 2018), (Gomes, Samuel, & Devie, 2019) and (Suaryana, 2019) found that intellectual capital disclosure has a positive effect on firm value. This means that the wider disclosure of a company's intellectual capital will have an impact on a higher assessment by investors of the company. This result is obtained because capital information is one of the important information used by investors to assess the company. In contrast to research conducted by (Aida & Rahmawati, 2015) and (Purnomo & Marcelia, 2016) found that intellectual capital disclosure has no effect on firm value. This research is a research development by (Widarjo, Rahmawati, Bandi, & Widagdo, 2020), namely by adding the intellectual capital variable, adding the intellectual capital disclosure scale to six measurement scales, namely the scale used by (Ulum et al., 2016) adding the intellectual capital disclosure item by (Li, Pike, & Haniffa, 2008) and using different populations and samples. This study was also motivated by the phenomena of the significance of intellectual capital and intellectual capital disclosure, as well as the mixed findings of intellectual capital and intellectual capital disclosure's impact on company value. For the period 2014-2019, this study focused on businesses listed on the Indonesia Stock Exchange in the financial services and telecoms industries.

Literature Review and Hypotheses Development

Research on the intellectual capital disclosure in Indonesia, especially in companies in the financial services and telecommunications sectors, has been investigated by (Widarjo et al., 2020). Research by Widarjo et al. (2020) found that these companies on average have a high level of intellectual capital disclosure, especially in structural capital disclosure by 44%, while external capital disclosure is 31% and human capital disclosure is 25% with the observation year 2012- 2016. Research conducted by (Omira, Dogan, Hidayat, Husrin et al., 2019) conducted research on companies in the banking sub-sector which found that the average amount of intellectual capital disclosure was 43.25% with an observation period of 2013-2017. Research by (Suwiji & Rachmawati, 2017) and (Messali, Larouj, Lgaz, Rezki et al., 2018) found that based on the content analysis method proves that there are differences in intellectual capital disclosure between the telecommunications and banking and manufacturing industries in Indonesia. The telecommunications industry has higher intellectual capital disclosures than the banking and manufacturing industries, especially in the employee and consumer categories.

H1: There are differences in the intellectual capital disclosure in financial services sector companies with telecommunications.

Intellectual capital is a business's intangible asset that is thought to provide value to the company by allowing it to create new goods and services that are offered to consumers. These inventions are expected to provide the business a competitive edge, allowing it to dominate the market. Intellectual capital's benefits in terms of generating competitive advantages and adding value are seen to be able to contribute to raising the firm's worth. Ownership and use of intellectual resources allows investors to place a higher value on businesses that are able to contribute value on a consistent basis (Oktari, Handajani, & Widiastuty, 2016).

Signaling theory is a theory which states that the main purpose of companies disclosing information in financial statements, especially intellectual capital, is to provide positive signals that aim to get a positive response from stakeholders so that they can provide competitive advantages and provide higher value for the company. . Based on resource-based theory that companies that are able to control and utilize resources effectively and efficiently, this will bring the company to good long-term performance and increased firm value (Ulum, 2016). The results of research by (Ariyani et al., 2018), (Ahmed, Khurshid, & Yousaf, 2019) and (Fitriasari, (2019)) found that intellectual capital has a positive effect on firm value.

H2: Intellectual capital has a beneficial impact on the value of a company.

According to signal theory, businesses would voluntarily reveal more information than they should in order to send a good signal, thus companies will prefer to enhance the amount of information given to stakeholders by making disclosures in annual reports. Companies that provide more information, including voluntary information, are considered to have advantages and advantages so that investors will tend to buy these shares.

Research by (Widarjo et al., 2020), (Gomes et al., 2019) and (Suaryana, 2019) found that intellectual capital disclosure has a positive effect on firm value. Signal theory suspects that intellectual capital disclosure information is expected to increase firm value. Increasing the level of intellectual capital disclosure results in a decrease in the misjudgment of stock prices, thereby increasing the firm value (Suaryana, 2019). Investments in intellectual capital enable companies to innovate and signal to the market about growth opportunities, which in turn will drive an increase in the firm value.

H3: Intellectual capital disclosure has a positive effect on firm value.

Based on literature review and hypothesis development, the research concept is presented in Figure 1 below:

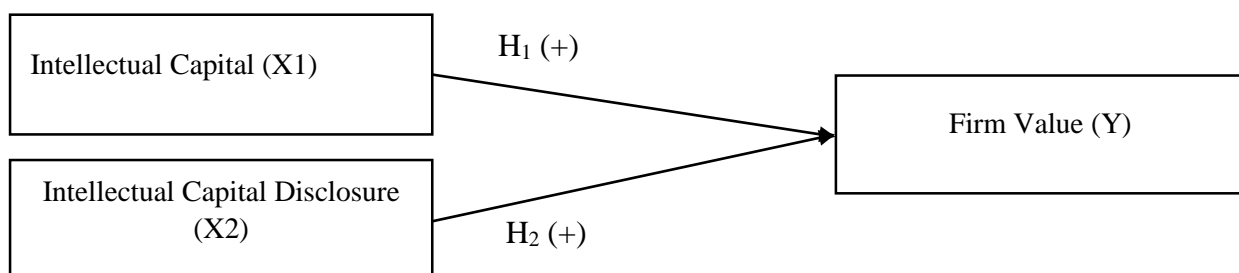


Figure 1. Conceptual Framework

Methods

The study was conducted on companies in the financial services and telecommunications sector with a research period of 2014-2019 by accessing and downloading the company's annual report on the official website of the Indonesia Stock Exchange through the website www.idx.co.id. The population used in this study is the financial services and telecommunications sector companies listed on the Indonesia Stock Exchange. The financial services and telecommunications sectors are used as the population in the study because these sectors are categorized as industries based on high intelligence that innovate in products and services, and knowledge and flexibility are critical aspects that determine the company's business success (Lusda et al., 2017). The research sample was chosen using a non-probability sampling approach combined with a purposive sampling methodology.

To address the second and third hypotheses, this research used a multiple linear regression analysis approach. The purpose of this test is to see how intellectual capital and intellectual capital disclosure affect company value.

Results and Discussion

The Results of the Two-Mean Difference Test of Independent Samples (T-test Differences)

The independent test t-test is a comparative difference or different test used to see whether there is a significant difference in the mean or average of two independent groups using interval or ratio data scales. This test is intended to demonstrate that financial sector firms and telecoms companies disclose intellectual models differently. Table 1 shows the outcomes of the Independent t-test.

Table 1

Independent Test Results T Test Differences Two Independent Sample Means (Test Difference t-test)

		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
Disclosure_IC	Equal variances assumed	0,075	0,785	-2,298	232	0,022	-0,02481	0,01080	-0,04609	-0,00354
	Equal variances not assumed			-3,327	24,511	0,003	-0,02481	0,00746	-0,04019	-0,00944

Secondary Data, 2021

Table 1 shows the significance value of Levene's test for equality of variance is $0.785 > 0.050$, it can be interpreted that the data variance between the intellectual capital disclosure in financial services sector companies and telecommunications is homogeneous, so that the interpretation of the independent samples test is guided by the values contained in the equal table. variances assumed.

Differences in Intellectual Capital Disclosure in Companies in the Financial Services Sector with Telecommunication

After examining the results of the Independent t-test, it can be seen that there is an important (significant) difference between the two groups. The Independent t-count value is negative at -2.298 due to this substantial (significant) difference being found in the equal variances assumed portion. In the telecommunications industry, the average value of intellectual capital disclosure is lower than in the finance sector, thus the t-count value is negative. Because of this, we can rule out hypothesis (H1), which states that businesses in the financial services industry disclose

intellectual capital differently from those in telecommunications.

The firm value is not only judged by the tangible assets it has, but the success of a company is also judged by the management of its intangible assets. If intangible assets can be managed properly, companies can improve performance, add value to the company, and gain competitive advantage. One of the intangible assets is intellectual capital. Intellectual capital can be categorized into three parts, namely structural capital, external capital and human capital. Information on intellectual capital can be found in the company's annual report which is voluntarily disclosed by the company. Disclosure of information on intellectual capital contains several items of intellectual capital. However, every industry and company has different characteristics, so investment in intellectual capital will also be different. Information about the level of intellectual capital can be a source of information in decision making.

The first hypothesis (H1) says that businesses in the financial services and telecoms industries disclose their intellectual capital differently. According to the Independent t-test findings, there are disparities between financial services and telecoms firms in terms of intellectual capital disclosure. Due to the high value placed on intellectual capital property in the financial sector (particularly banking firms), intellectual capital disclosure in telecommunications companies is lower than it is in financial sector companies. The financial sector, especially banking companies, has the highest level of disclosure, namely BCAP (MNC Kapital Indonesia) companies, especially in the disclosure index of the human capital category. The high level of disclosure on human capital means that the company discloses the importance of managing capital, especially at the level of education, competence, and training of its employees. Banking companies are one of the important industries in supporting the economic movement of a country. The increase in the number of banking companies has led to high competition between banks, causing intellectual capital investment and information on intellectual capital to be important, especially in human capital. Based on the results of the independent t-test analysis, the research by (Suwiji & Rachmawati, 2017) and (Messali et al., 2018) found that based on the content analysis method, it was proven that there were differences in the intellectual capital disclosure between the telecommunications and banking and manufacturing industries in Indonesia.

Results of an Analysis Using Several Linear Regressions

In this test, the impact of intellectual capital and disclosure of intellectual capital on company value will be determined. Table 2 shows the findings of this study's multiple linear regression analysis:

Table 2

Results of Multiple Linear Regression Analysis

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-0,079	0,050		-1,570	0,118
1 VAIC	0,058	0,026	0,128	2,239	0,026
Disclosure_IC	0,465	0,054	0,493	8,655	0,000

Secondary Data, 2021

Regression equation based on Table 7's findings of a multi-linear regression analysis

$$Y = -0.079 + 0.058 X_1 + 0.465 X_2$$

The Effect of Intellectual Capital on Firm Value

This study found that intellectual capital had a significant positive impact on company value, and the significance value was 0.026, with a positive regression coefficient of 0.05, and a t-count value of 2.23. H2 is approved because of the significance value of 0.026 0.05. Consequently, the second hypothesis is confirmed: intellectual capital has a positive and substantial impact on company value.

There are intangible resources known as intellectual capital that are always changing (Khalique, Nassir Shaari, Isa, & Ageel, 2011). Intellectual capital is both an intangible and a monetary asset for a business, depending on how it is used. Excellent management of a business's intellectual capital may boost its competitiveness and help the organisation achieve good long-term results.

New inventions need competitive advantage if businesses are to succeed in the market. Good management of a company's intellectual capital will enable it to operate well and, as a result, enhance the firm's worth. The second hypothesis (H2) proposes that a firm's worth is enhanced by its level of intellectual capital. It turns out that intellectual capital boosts a company's worth, as shown through multiple linear regression analysis. According to (Pulic)'s VAICTM model, raising the value of intellectual capital will raise the PBV of the company as a result. As a consequence of these findings, the second hypothesis (H2) may be considered valid.

Researchers' findings back up signalling theory, which states that CEOs have superior knowledge about their companies and are more likely to share that information with prospective investors, causing the stock price of such companies to rise as a consequence of that information. The value included in financial statements sends messages from companies to others who utilise them. This is a signal that tells you what the company's management has done to carry out the desires of the owner. Stakeholders may respond positively to information in financial statements regarding a business's intellectual capital, which may provide the company a competitive edge and increase its worth. When it comes to strategic management, one perspective describes a view on a company's competitive edge, which is thought to assist businesses win rivalry with rivals. According to the resource-based hypothesis, businesses that can effectively and efficiently manage and use their resources would have better long-term performance and higher firm value (Ulum et al., 2016).

Research performed by (Ariyani et al., 2018), (Ahmed et al., 2019) and (Fitriasari, (2019)) has shown that intellectual capital has a favourable impact on company value, and this study's findings support those findings. When businesses have more intellectual capital, it will be simpler for them to satisfy the needs of all of their stakeholders, including their investors. Increasing demand for the business's shares will demonstrate to investors on the capital market that they value a company's intellectual capital, which will help increase the worth of the company as a whole. The more a company's intellectual capital, the more valuable the company will be. Firms that make excellent use of the company's resources promote the creation of value that benefits the firm. The company's performance will improve as a result of efficient and effective resource management, and stakeholders will take notice. The stock price of a business may provide insight into its worth. The firm's worth will rise if stakeholders respond favourably (Fitriasari, (2019)).

Firm Value and Disclosure of Intellectual Capital

The significance value of 0.000 is achieved with a positive regression coefficient of 0.465 and a t-count value of 8.655 based on the findings of the study of the impact of Intellectual Capital Disclosure on Firm Value. H0 is rejected because of the significance value of 0.000, while H3 is accepted because of the significance value of 0.000, which is 0.05. Thus, the third hypothesis is confirmed as a consequence of intellectual capital disclosure's positive and substantial impact on company value.

Information-sharing companies are seen favourably by investors, who are more likely to purchase their stock because of the benefits they provide. Financial and non-financial information may both be shared. Non-financial information, such as intellectual capital, is disclosed in a variety of ways. If intellectual capital is a top priority in the company's operations, the annual report will include information on it. Companies will be able to communicate high-quality signals about intellectual capital ownership in the future by using voluntary disclosure of intellectual capital, which will be a very effective medium (Ulum et al., 2016). Intellectual capital disclosure increases a firm's worth, according to the second hypothesis (H2). There is evidence from numerous linear regression studies that revealing an organization's intellectual capital enhances its worth. That's why more intellectual capital may help a business become more valuable by disclosing it in their annual report. These findings lead us to believe that the second hypothesis is correct (H3).

The study's findings back up the signal theory, which states that signals sent by businesses via the disclosure of information, even voluntary information, have benefits and advantages, leading investors to purchase these shares in greater numbers. When firms publicly disclose their intellectual capital holdings, signal theory predicts that the value of the company would rise. A company's potential to create future wealth may be judged more accurately by investors and shareholders when intellectual capital is voluntarily disclosed. An improvement in openness and a better reputation may be expected if intellectual capital information is made public. The increased worth of the company will thus be due to more openness, as the market will be

attracted to have a better organisational image via the disclosed information on intellectual capital (Gomes et al., 2019).

Research performed by (Widarjo et al., 2020), (Gomes et al., 2019), and (Suaryana, 2019) has shown that intellectual capital disclosure has a favourable impact on company value. The study's findings corroborate these findings. Information about intellectual capital is one of the most important assets for investors, as it has the potential to influence capital market activity and to boost investor confidence in their investment choices. More non-financial information, including data on intellectual capital, is critical for reducing the knowledge gap between key stakeholders (Widarjo et al., 2020).

Coefficient of Determination Test Results (R²)

The capacity of the model to explain the variance in the independent variables is determined and measured using the coefficient of determination (R²) test. Because the modified R² value, unlike R², may rise or decrease if an independent variable is introduced to the model, the researcher utilises it while assessing which regression model is the best.

Table 3

Coefficient of Determination Test Results (R²)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0,502 ^a	0,252	0,246	0,76035701

Secondary Data, 2021

Using the data in Table 3, it can be seen that the adjusted R² value of 0.246, or 24.6%, is influenced by the variables Intellectual Capital (VAIC) and Disclosure of Intellectual Capital (Disclosure IC), while the remaining 75.4% is explained by other factors not included in the model.

Model Feasibility Test Results (F Test)

Table 4

Results of the Model Feasibility Test (Test F)

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	44,990	2	22,495	38,909	0,000 ^a
Residual	133,551	231	0,578		
Total	178,541	233			

Secondary Data, 2021

Because the significance value of P value is less than = 0.05 in the F test (Ftest), the model employed in this research is likely to be valid. As a consequence of this finding, all factors are capable of predicting or explaining the occurrence of company value. That is to say, intellectual capital factors and disclosure have an impact on company value simultaneously. Having excellent goodness of fit findings with a significance value of 0.000 indicates the model may be utilised for further analysis or, to put it another way, the model can be used for projecting.

Implications Managerial

The significance of financial and non-financial information in the annual report is highlighted in signal theory. Investing choices may be influenced by the signals this data provides. Stakeholders may get a hint about a company's management of intellectual capital by seeing information on intellectual capital, such as how much is disclosed. In line with the resource-based approach, businesses possess resources that provide them a competitive edge and allow them to steer the company toward superior long-term results. Good management of intellectual capital is anticipated to boost a business's performance and, as a result, its worth, as represented in the stock price of the company.

Additional information regarding the importance of presenting information regarding the elements of intellectual capital and intellectual capital disclosure in a company and issuer in decision making by management that aims to increase the value of a company. Increasing the firm value can be done by maintaining and increasing the competitive advantage of a

company. The competitive advantage of a company can be increased by owning and managing all its resources, one of which is intellectual capital. Companies and issuers that have a strong intellectual capital base in running their business can use the intellectual capital disclosure to be one of the advantages among their competitors.

Conclusion

Studies have shown disparities in intellectual capital disclosure in Indonesia's listed banking and telecommunications industries during 2014-2015, according to the findings of a new report. These discrepancies reveal that the amount of intellectual capital disclosed by companies varies depending on the industry. Compared to financial sector firms, telecommunications firms disclosed less intellectual capital on average, with values lower than those found in the study.

Research shows that intellectual capital increases a company's worth. Increasing the amount of information in the annual report on intellectual capital management may provide investors an important signal and influence their choices, share prices, and the value of the company. Findings support signal theory as well as resources-based theory. Investors and other stakeholders may respond positively to information in financial statements regarding intellectual capital values, giving the business a competitive edge and increasing its worth. According to 'resource-based theory,' businesses that can effectively and efficiently manage resources would have better long-term performance, increasing the value of the company.

The study's findings show that disclosing intellectual capital boosts a company's worth. The worth of a company may rise when more of its intellectual capital is made public. The study's findings corroborate the signal hypothesis, which holds that information released by a business has a significant impact on the investment choices of third parties. In the annual report, companies may send a signal to stakeholders about the importance of revealing their intellectual capital. Stock prices and business value may be affected if there is more openness about corporate information.

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