

How is The Practice of Intellectual Capital Report in Indonesia?

Badingatus Solikhah

Abstract— This study is a longitudinal study that tries to understand the growth of IC disclosure in Indonesian banking. This study used a sample of 29 banking companies listed in Indonesia Stock Exchange. IC disclosure was measured by the method of content analysis using 56 items. Furthermore, the data was analyzed with qualitative descriptive approach. The results show that the IC disclosure in Indonesia is still low and has not been comprehensively. There is no particular pattern in the reporting of Intellectual Capital in Indonesia.

Keywords—intellectual capital disclosure, banking, Indonesia,

I. Introduction

Development in the field of economics has a significant impact on the management of a business and the determination of competitive strategy. People in business industry begin to realize that the ability to compete does not only rely on the concrete assets, but more on the innovation, information systems, organizational management and human resources. Therefore today, a company's ability to innovate and to use the technology becomes one of the important things. Knowledge asset is the company's competitiveness.

One approach that can be used to assess and measure the knowledge assets is Intellectual Capital (IC). IC has become the focus of attention in various fields, good management, information technology, sociology, and accounting (Petty and Guthrie, 2000). With the rise of the knowledge-based economy, most companies use IC as a strategic resource in a competitive and dynamic ways for creating companies' values (Haji and Mubarak (2012).

Intellectual capital is combination of the Intellectual property held by a business and the people in that business that can use and enlarge it. Intellectual Capital is an organizational capability to create, transfer, and implement their knowledge. Based on that context, companies need to develop a strategy to be able to compete in the market. In principle, sustainability and capability of a company are based on the IC, so that the resources of the company can create a value added for stakeholders.

In accordance with the opinion of Mavridis (2004), Intellectual Capital is an intangible asset that can create value to the company and the community that includes patents, intellectual property rights, copyrights and franchises. Guthrie and Petty (2000) argue that the importance of intellectual capital is due to the following factors; Firstly, the revolution in information technology and information society. Second is the beginning of recognition toward the importance of knowledge and knowledge-based economy. Third is the change in activity patterns between individuals and society as well as the emergence of innovation networks as the main determinant of competitive advantage.

Various people have realized that the Intellectual Capital can significantly add the value of the company and even in some cases; it represents almost the entire value base of the company (Purnomosidhi, 2003). It has apparently encouraged academics to create new way of measurement that can be used to record and report the inherent value of intellectual capital owned by an organization. Most of these intangible assets cannot be included within a company's balance sheet and intellectual capital disclosures in the annual report and financial statements have been largely voluntary. There are good reasons why companies may choose not to disclose information about these types of assets.

Research on Intellectual Capital initially focused on the definition and classification (Bontis, 2000). However, the current research focuses on the disclosure of intellectual capital and the factors that influence it. The practice of intellectual capital (IC) disclosure in the company's annual report has become a theme which attracts many researchers in various countries (see eg Williams, 2001; Brennan, 2001; Bozzolon et al., 2003). This theme becomes interesting because IC is believed to be a factor which drives value and creation. It apparently has encouraged academics to create new measures that can be used to record and report the inherent value of intellectual capital owned by an organization.

The disclosure of Intellectual capital in Indonesian banking is an interesting topic to study because there is no standardized guideline on the measurement and report of intellectual capital in Indonesia. Another appealing factor is because there are no standards that define what items are included in the intangible assets that can be managed, measured and reported both in the mandatory disclosure and voluntary disclosure. One area of interest to both academics and practitioners is the disclosure of intellectual capital as one of the instruments to determine the value of the company (Purnomosidhi, 2006). In Indonesia, the standard set of intangible assets is IAS 19. IAS 19 aims to determine the

accounting treatment for intangible assets that are not regulated specifically in another standard. IAS 19 (Revised 2010) requires an entity to recognize an intangible asset if certain criteria are met.

White (2007) stated that there are some IC voluntary disclosure items, including index developed by Bukh, et al (2005). White (2007) used this index to measure the disclosure score of IC by 102 listed biotechnology companies in Australia in 2005. Bukh, et al (2005) separates the voluntary disclosure of intellectual capital in six dimensions including employees, customers, information technology, processing, research and development, and strategic statements. Both White (2007) and Bukh, et al (2005) used the annual report to identify IC disclosure. Annual report is selected as the data source because it is easy to obtain, the report has been examined by the company, and the report is also widely distributed to the public (Campbell, 2000).

Research on the disclosure of intellectual capital has been conducted in some countries, but these studies have limitations such as the use of small sample and limited amount of research time (Williams, 2001). Research on the disclosure of intellectual capital in various countries include: Ireland (Brennan, 2001), Sri Lanka (Abeysekera and Guthrie, 2005), Italy (Bozzolan et al., 2003), England (Williams, 2001), United States (Abdolmohammadi, 2005), and Canada (Bontis, 2002).

While the comparative studies are conducted between countries eg the Italy and the United Kingdom (Bozzolan, et al., 2006) or the Australian and Hong Kong (Guthrie et al., 2006). Level of intellectual capital disclosure in Indonesia is still low. The average number is just 34.5% out of the total 25 items on the intellectual capital (Suhardjanto and Wardani, 2010). While the result of a global survey shows that intellectual capital is one of the types of information that is most widely considered by investors. There, the "information gap" still exists (Bozzolan et al., 2003).

II. Research Methodology

A. Research Object

This paper was conducted in the listed banking companies in Indonesia in 2009 - 2013. In 2009, the listed banking companies in Indonesia were 29 banks. In 2013, the listed banks were increased to 31 banks. Because the study was meant to look over the growth of IC disclosure, we analyzed 29 listed banks since 2009. However, there were two banks which did not submit annual reports on the Indonesian Stock Exchange website. Therefore, they were not included in this study. The numbers of sample were 27 banks in five years period. Hence, there were 135 units of analysis in total.

B. Data Analysis

The data used in this research was secondary data from the annual reports of each bank. Index of IC disclosure was collected by the method of content analysis. Content

analysis is a method of collecting data through observation and analysis of the content or message of a text and then classifies them into predefined criteria. Content analysis is the most appropriate instrument to investigate IC disclosure practices by companies (Guthrie et al., 2004). This approach has been used by previous researchers to identify the same thing (see: Guthrie and Petty, 2000; Bozzolan et al., 2003; and Brennan, 2001).

IC disclosure instrument used in this study is the index that has been used by Bukh (2005) and White (2007) with an adjustment in the context of banking in Indonesia. Disclosure as a percentage of the total index is calculated according to the following formula:

$$\text{ICD_Index} = (\sum di / M) \times 100\%$$

Explanation:

ICD_Index = Index of intellectual capital disclosure
 di = Score 1 if the attribute IC disclosed in the annual report and score 0 if not disclosed
 M = total of all measured items (56 items).

Coding system used the scores 1 and 0 in order to help researchers to determine how the IC disclosure is. Disclosure of intellectual capital was then divided into five categories. This categorical record was converted into a percentage of disclosure IC for each company by dividing the sum of the disclosures by the denominator of a total of 56 measured items. The beginning of research of Gray et al., 1984 showed that scoring annual reports using the methods outlined could provide valuable insight into the level of particular disclosures. There were substitute methods for gathering intellectual capital information from annual reports (Guthrie and Petty, 2000; Guthrie et al., 2004) and as a form of content analysis they were equally as valid as the use of a disclosure index.

III. Result and Discussion

In this paper, we studied the extent of voluntary disclosure in Listed Banking in Indonesia. Based on the research of Bukh, et.al, (2005) and White (2007), they used the 76 items for measurement of IC disclosure. However, in this study we used 56 items that have been adapted to banking context. Furthermore, these items are grouped into five components that include: Employees (24 items), Customers (8 items), Information technology (5 items), Processes (8 items), and Strategic Statement (11 items). This paper did not employ Research and Development (R&D) as conducted by previous research, because R&D in the banking industry in Indonesia has been included in other components such as employee and information technology. Indeed, the banking industry is different from the manufacturing industry that focused on the issue of R & D.

A. Indonesian IC Disclosure Growth

The disclosure of intellectual capital in Indonesian banking is still low with a score about 39%. This figure shows that the assessment of the 56 total attributes of intellectual capitals, only about 22 items which are disclosed in the annual report. However, there are also banks that have submitted their intellectual capital with a fairly complete example such as Bank Negara Indonesia 1946. That Bank reveals more than 50% of their intellectual capital during this 4 year study.

TABEL 1: IC Disclosure Growth

	2009	2010	2011	2012	2013
Average	34.52%	34.92%	36.11%	45.30%	43.25%
	19 items	20 items	20 items	25 items	24 items
Min	16.07%	14.29%	16.07%	30.36%	26.79%
Max	50.00%	51.79%	51.79%	60.71%	57.14%
St.Dev.	9.48%	9.72%	9.68%	8.14%	9.67%

Companies disclose their intellectual capitals for various reasons. There are five reasons why companies report the Intellectual Capitals: (1) Reporting Intellectual Capital can help organizations to formulate their business strategies by identifying and developing Intellectual Capital to achieve the competitive advantage. (2) Reporting Intellectual Capital can develop the key indicators performance that will help companies to evaluate the achievement of the strategy. (3) Reporting of Intellectual capital can help the companies to evaluate mergers and acquisitions, particularly to determine the price paid by the acquirer. (4) Using Nonfinancial Intellectual Capital report can be attributed to the intensive and compensation plans of the company. (5) The Company may communicate to the external stakeholders about the company's Intellectual Property. The first to fourth reasons are the internal reasons of the company in the reporting of Intellectual Capital, while the fifth reason is the external reasons.

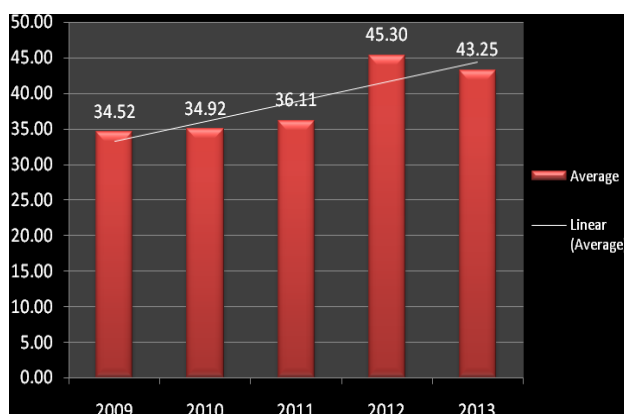


Figure 1. The Growth of Intellectual Capital Disclosure Index

Over these past 5 years, the growth of IC Disclosure in Indonesia shows a good trend. Table 1 and Figure 1 show that the IC Disclosure increases every year gradually. From the table, it can be inferred that the highest raise occurred in 2012 which reached an index score of 45.3% of IC Disclosure.

Based on the data in Table 1, the performance of IC disclosure in 2012 has the best rise. The rising on disclosure of IC does not only occur in one bank but also in all banks generally. Hence, there is a significant rise in 2012 as much as 25.46%. While in 2011, there are only 3.41% rise and 1.15% rise in 2010. However, the next year (2013), it is decreased by 4.5% to 43.25%. It is suspected because in 2013 the issue of Enterprise Risk Management (ERM) and Corporate Governance are more important to discuss. Then it is possible for the company to decrease its intellectual capital disclosures in the annual report.

B. Disclosure IC in 5 Dimensions

Table 2 shows that the lowest disclosure is in the customer dimension. Only a few banks that disclose the employee and the customer, the average are only carried by six banks (customer) and 9 banks (employee). On the information technology dimension, process dimension and strategic statement dimension show that the average number is relatively the same that is 14 banks. In the disclosure of employee, most listed banking in Indonesia only categorizes their employee by level of education and discloses the policy on employee competency development. On the disclosure of customer, most Indonesian banking only reports their annual income per segment or product. Indonesian banking awareness to report assets on the Information and Technology (IT) is quite high. This trend can be seen on the annual report which is ranging from (1) Description of investments in IT; (2) Description of existing IT systems; (3) Software assets held or developed by the firm; (4) Description of IT facilities; and (5) IT expenses. IT is one of the success keys in banking because almost the provided services based on IT. In the process, banking weakness in Indonesian is not yet available reports on the measure of the internal or external processing failures. In the strategy statements which are rarely comments on the effects of the strategic alliances.

TABEL 2: Average Numbers of Banking Disclosed IC

Year	Dimension of IC Disclosure				
	Employee	Customers	Information technology	Processes	Strategic statement
2009	7	7	13	11	14
2010	7	7	14	13	13
2011	7	6	13	15	13
2012	12	6	16	15	14
2013	12	6	16	15	14
	9	6	14	14	14

iv. Result and Discussion

Based longitudinal study, it can be concluded that the disclosure of intellectual capital in Indonesia do not have a fixed standard. Intellectual capital disclosure is voluntary. Disclosure of intellectual capital in Indonesia is more presented in quantitative form. Reporting and disclosure of intellectual capital in Indonesia are carried out partially and not comprehensively as compared to the other countries such as Australia (Guthrie and Petty, 2000), Ireland (Brennan,

2001) and Sri Lanka (Abeysekera and Guthrie, 2005). While the guide that was widely used by companies in Indonesia (not only in banking) ie disclosure guidelines issued by the Global Reporting Initiative. The guide is called the sustainability reporting framework. A sustainability report is a report published by a company which cover the economic, environmental and social impacts caused by its activities. It also presents the organization's values and governance model, and demonstrates the link between its strategy and its commitment to a sustainable global economy. Components of intellectual capital have been included in the sustainability report.

References

- [1] Abdolmohammadi, M.J. 2005. "Intellectual capital disclosure and market capitalization". *Journal of Intellectual Capital*, Vol. 6 No. 3, pp. 397-416.
- [2] Abeysekera, I. and Guthrie, J. (2005), "Annual reporting trends of intellectual capital in Sri Lanka", *Critical Perspectives in Accounting*, Vol. 16 No. 3, pp. 151-63.
- [3] Bontis, N. 2000. "Assessing knowledge assets: a review of the models used to measure intellectual capital". *International Journal of Technology Management*. Vol. 3 No. 1. pp. 41-60.
- [4] Bozzolan, S., F. Favotto, and F. Ricceri. 2003. "Italian annual intellectual capital disclosure; An empirical analysis". *Journal of Intellectual Capital*. Vol. 4 No.4, pp. 543-558.
- _____, P. O'Regan, F. Ricceri. 2006. "Intellectual Capital Disclosure (ICD): A Comparison of Italy and The UK". *Journal of Human Resource Costing & Accounting*. Vol. 10 No. 2. pp. 92-113
- [5] Brennan, N. 2001. "Reporting intellectual capital in annual reports: evidence from Ireland". *Accounting, Auditing & Accountability Journal*. Vol. 14 No. 4. pp.423-436.
- [6] Bukh, P.N., Nielsen, ., Gormsen P. and Mouritsen, J. 2005. "Disclosure of Information on Intellectual Capital in Danish IPO Prospectus." *Accounting, Auditing & Accountability Journal*, Vol. 18 No.6, pp. 713-32
- [7] Campbell, D.J. 2000. "Legitimacy theory or managerial reality construction? Corporate social disclosure in Marks & Spencer plc corporate reports, 1969-1997". *Accounting Forum*. Vol. 24. No. 1. pp. 80-100.
- [8] Guthrie, J., and R. Petty. 2000. "Intellectual capital: Australian annual reporting practices". *Journal of Intellectual Capital*. Vol. 1 No. 3. pp. 241-251.
- [9] _____, _____, and F. Ricceri. 2006. "The voluntary reporting of intellectual capital; comparing evidence from Hong Kong and Australia". *Journal of Intellectual Capital*. Vol. 7 No. 2. pp. 254-271.
- [10] _____, _____, and Yongvanich, K. 2004. "Using content analysis as a research method to inquire into intellectual capital reporting", *Journal of Intellectual Capital*, Vol. 5. No. 2, pp. 282-293.
- [11] Haji, A.A. and Mubaraq, S. 2012. "The trends of intellectual capital disclosures: evidence from the Nigerian banking sector". *Journal of Human Resource Costing & Accounting*. Vol. 16 No. 3, pp. 184-209.
- [12] Ikatan Akuntan Indonesia. 2010. *Pernyataan Standar Akuntansi Keuangan No. 19*. Salemba Empat. Jakarta
- [13] Mavridis, D.G. 2004. "The intellectual capital performance of the Japanese banking sector". *Journal of Intellectual Capital*. Vol. 5 No. 3. pp. 92-115.
- [14] Petty, P. and J. Guthrie. 2000. "Intellectual capital literature review: measurement, reporting and management". *Journal of Intellectual Capital*. Vol. 1 No. 2. pp. 155-75.
- [15] Purnomosidhi, Bambang. 2003. "Mengukur dan Mengelola Intellectual Capital". *Jurnal Ekonomi dan Bisnis Indonesia*. Vol. 15 No. 3 pp. 247-256.
- [16] Suhardjanto, D dan Wardhani, M. 2010. "Praktik Intellectual Capital Disclosure Perusahaan yang Terdaftar di Bursa Efek Indonesia". *JAAI* 14/1: 71-85.
- [17] White G., Lee A., Tower G. 2007. Drivers of Voluntary Intellectual Disclosure in Biotechnology Listed Companies. *Journal of Intellectual Capital*. 8(3). 517 – 537.
- [18] William, S.M. 2001. "Is intellectual capital performance and disclosure related?", *Journal of Intellectual Capital*, Vol. 2. No. 3, pp. 192-203.

About Author (s):



Intellectual capital disclosures in the annual report have been largely voluntary. There is no particular pattern in the reporting of Intellectual