International Journal of Application on Economics and Business (IJAEB)
Volume 1, Issue 4, 2023. ISSN: 2987-1972

BOARD SIZE, BOARD COMPOSITION, LEVERAGE AND ITS EFFECT ON INTELLECTUAL CAPITAL DISCLOSURE

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Submitted: 31-05-2023, Revised: 14-07-2023, Accepted: 12-09-2023

ABSTRACT

Disclosure of non-financial information by companies is very important information, such as voluntary disclosures. The most common type of information used by investors is not actually disclosed by managers in annual reports. This causes a social gap between investors and management. It can be concluded from the research that voluntary disclosure is very important to improve the quality of annual reports and satisfy the interests of stakeholders. A management system that can work professionally, honestly and transparently can increase demand from the market and will encourage companies to provide more transparent information. The information disclosed in the financial statements is actually not able to represent the overall condition of the company in order to produce values and make decisions by investors. Therefore, in order to increase value and assist investors in making decisions, companies can disclose information voluntarily. With this obligation, it can encourage companies to disclose more information, because honesty and transparency are the basis of corporate governance, this is what is referred to as disclosure of intellectual capital (intellectual capital disclosure) The main purpose of this research is to find empirical proof about the effect of board size, board composition, and leverage on intellectual capital disclosure. The data used in this research were obtained from manufacturing companies that listed on the Indonesian Stock Exchange (IDX). 288 data were gathered from 144 companies in the year of 2020-2021. Purposive sampling method is used to collect the data and panel data regression model is used for hypothesis testing. Software EViews 9 is used for preparing and processing data. This research reached a conclusion that the number of board composition is positive and have not give a significant effect on intellectual capital disclosure. Variables of board size and leverage have a negative and dont have a significant effect on intellectual capital disclosure.

Keywords: *Cash Holding, Leverage, Firm Size, Cash Flow Volatility, Tax Avoidance*

1. INTRODUCTION

In this era of globalization, companies have a great opportunity to compete on a global scale. However, the era of globalization can also be an enemy for companies that cannot adapt to the changes that are occurring, especially during the Covid-19 pandemic. Therefore, companies are always required to change their work methods in order to survive for the sake of business continuity. It is this change that makes competition and the survival of companies increasingly dependent on knowledge-based resources. Disclosure of information is very important because it is used by interested parties to make decisions. Disclosure of this information is usually informed in the company's annual report which contains adequate information about what activities are carried out by the company. The report contains basic financial reports and management's analysis of the company's past operations and future prospects. To show these prospects, companies can disclose non-financial information to the public in their annual reports. This non-financial information contains the complete activities of the company, as well as developments, achievements, performance and achievements that the company has achieved in a year. Disclosing this non-financial information can build good prospects for the company going forward. Financial reports still have limitations in assessing a company which actually shows that there are other factors within the company that are intangible and cannot be measured by accounting values but greatly affect the value of the company. Intangible assets without physical objects cannot be recorded and disclosed in traditional financial reports. Limitations in traditional accounting reporting indicate that economic resources are no longer in the form of physical assets but instead create intangible assets in the form of intellectual capital. However, disclosure still gets minimal attention from the public because of the mindset that cannot see the return benefits of intellectual capital for their investment. According to Nurziah and Darmawati (2014) an overview of research conducted by Price Waterhouse Cooper (PWC), that investors consider the disclosure of non-financial information by companies to be very important information, such as voluntary disclosures. The most common type of information used by investors is not actually disclosed by managers in annual reports. This causes a social gap between investors and management. It can be concluded from the research that voluntary disclosure is very important to improve the quality of annual reports and satisfy the interests of stakeholders. A management system that can work professionally, honestly and transparently can increase demand from the market and will encourage companies to provide more transparent information. The information disclosed in the financial statements is actually not able to represent the overall condition of the company in order to produce values and make decisions by investors. Therefore, in order to increase value and assist investors in making decisions, companies can disclose information voluntarily. With this obligation, it can encourage companies to disclose more information, because honesty and transparency are the basis of corporate governance, this is what is referred to as disclosure of intellectual capital (intellectual capital disclosure).

2. LITERATURE REVIEW

Signaling Theory

Signaling Theory is a guide or direction for investors regarding the state or future of the company in the future. According to Jensen & Meckling (1976), a sign or signal is an effort decided by the management of a company in giving instructions or directions to outsiders regarding the condition of the company either now or in the future.

Intellectual Capital Disclosure

Intellectual capital disclosure (ICD) is the disclosure of information regarding intellectual capital. ICD can also be defined as the provision of information needed to operate a capital market optimally and efficiently (Yan, 2017). Disclosure of such information is usually through annual reports or through financial reports and other published information. ICD is one of the information needed by investors, because they will be more helpful in reducing uncertainty about the future prospects of a company. In addition, ICD can also be evidence of the value that a company uses to improve its reputation (Anna & RT, 2018). ICD disclosure has a high role in creating a sense of trust for stakeholders. This trust is very important for the company because the strategy will create stakeholder commitment for the company's future.

Board Size

Board size (board of directors) functions as a board that controls information in the company's annual report, the board of directors in the company's internal control system has a special responsibility to carry out the company's function as a provider of early warning systems so that the company can operate properly before a crisis (Yan, 2017) . With the existence of a board of directors in a company, management's opportunistic behavior can be limited. The board of directors is part of corporate governance which was formed to improve company performance through supervision or monitoring of management performance to ensure management accountability to shareholders and stakeholders.

Board Composition

Board composition in this study is measured by board independence. Board composition is an important measure of board effectiveness and has an important influence on disclosure. Board composition is needed to monitor and control the opportunistic behavior of a management party (Indah & Handayani, 2018). With the existence of the board composition, the corporate governance mechanism can be further strengthened. Every company registered in Indonesia must report data along with the number of independent boards of commissioners or not who serve proportionally in its annual report

Leverage

Leverage is the ratio used by companies with the aim of knowing the extent to which company assets are financed with debt (Isnalita, 2017). Leverage in this study uses the debt to equity ratio (DER). The higher the DER, the lower the company's ability to pay all its debts and vice versa. The DER ratio is used in this study because it can determine a company's ability to use its assets and to find out what part of the company's capital is used as collateral for debt.

3. RESEARCH MODEL AND HYPOTHESES DEVELOPMENT

Board of Directors with Intellectual Capital Disclosure

Yan (2017) states that companies can benefit from increased information disclosure when the Board of Directors in the company is well structured. The right composition of the Board of Directors will help accelerate the circulation and operation of management information within a company. The Board of Directors will choose an effective strategy and will establish regulations on how to utilize and determine Intellectual Capital Disclosure. According to the research results of Gan et al. (2013) board size has no significant relationship to board size. The larger the composition of the Board of Directors will result in delays in the communication process and will limit the efficiency of the board. This is not in line with the results of Isnalita and Romadhon's research (2018) which states that the larger the Board of Directors of a company, the greater the demand for information disclosure compared to companies with smaller Boards of Directors. In line with the research of Li et al., (2008) and Alfraih (2018) that the Board of Directors has a significant effect on ICD. With a high composition of the Board of Directors, the company will disclose more information in the annual report, so that other shareholders can obtain more comprehensive information about the company's activities, work programs, capabilities, and future performance. However, it is not in accordance with Indah and Handayani's research (2017) found that the Board of Directors does not have a significant and positive influence on Disclosure of Intellectual Capital.

Independent Director with Disclosure of Intellectual Capital

Directors in a corporate governance have the duty to monitor, control, and evaluate management behavior Baldini & Liberatore (2016). The Independent Director is considered to be able to work better in monitoring and providing an assessment of management because there is no relationship with the company. The composition of the board of directors usually refers to a combination of internal directors (executive) and external directors (non-executive).

External directors here are usually classified as directors who come from outside the company who are independent. Executive directors can be said to be independent because they have no connection with the operations management of the company. With an independent director equality in the decision-making strategy will be more transparent and lead to greater oversight to maximize disclosure of a company's intellectual capital Hidalgo et al. (2010). Independent Director on Disclosure of Intellectual Capital is significant and positive. These results indicate that with a high proportion of boards they usually have professional skills and a lot of experience, so they will strengthen the relationship with intellectual capital disclosure. In accordance with the results of the study of Li et al. (2008) stated that to increase transparency and accountability, companies can increase Independent Directors by increasing the proportion of independent non-executive directors. This research is very important for shareholders to pay attention to Independent Directors, who have a very important relationship in making decisions regarding Disclosure of Intellectual Capital. Yan (2017). Li et al., (2008) and Yan (2017)found that Independent Directors have a significant and positive relationship to Disclosure of Intellectual Capital.

Leverage with Disclosure of Intellectual Capital

The more information published by the company can reduce the burden of supervision and can help to be trusted by creditors of the information needed. In the Agency Theory, it is stated that a company that has a greater leverage ratio will disclose more available information, because the agency burden of a company with such a capital framework is higher, Jensen and Meckling (1976).

Hypotheses

The following is the model of this research:

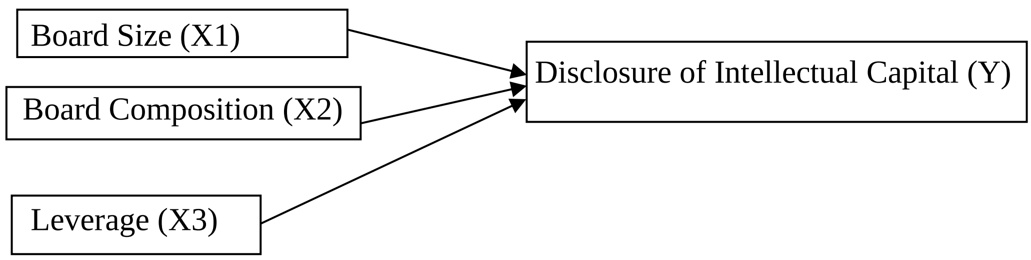

Figure 1. Research Framework

Based on research by Li et al., (2008) and Alfraih (2018) that the Board of Directors has a significant effect on Disclosure of Intellectual Capital. However, this is not in accordance with Indah & Handayani's research (2017) finding that the Board of Directors does not have a significant and positive influence on Disclosure of Intellectual Capital.

The results of the research according to Anna and RT (2018) , Isnalita and Romadhon (2018) , Hidalgo et al. (2010), Alfraih (2018), and Dalwai & Mohammadi (2020) stated that independent directors have no significant influence on disclosure of intellectual capital. However, the results of this study are contradictory according to Yan (2017), Baldini & Liberatore (2016), and Gan et al. (2013) which stated that independent directors have an effect on disclosure of intellectual capital.

H1: The Board of Directors has a positive and significant effect on Disclosure of Intellectual Capital.
H2: The Independent Director has a negative and significant influence on intellectual capital disclosure.
H3: Leverage has a positive and significant effect on Disclosure of Intellectual Capital.

The Multiple Regression Model

The multiple regression model equation used is as follows:

$$ICDI = \alpha + \beta_1 BSIZE + \beta_2 BCOM + \beta_3 DER + \boldsymbol{\varepsilon}$$

Notes:
ICDI : Intellectual Capital Disclosure index
α : Constant Value
β1-β3 : Variable Coefficient
BSIZE : Board Size
BCOM : Board Composition
DER : Leverage
ε : Error Term

4. RESEARCH METHODS

Population and Samples

The object of this study was chosen to determine the effect of the board of directors, independent directors, and leverage on disclosure of intellectual capital. The sample in this study is a company engaged in manufacturing for two periods, namely 2020-2021 and accredited on the Indonesia Stock Exchange (IDX). 288 data were collected from 144 companies from 2020-2021.

Data Analysis Technique

Company data selection method is non-probability sampling with purposive sampling technique. The panel data regression model is used for hypothesis testing. Using EViews 9 Software. The tests conducted in this study consisted of descriptive statistical analysis, adjusted R2 test, multiple linear regression analysis, and t test.

Variables and Measurement

Table 1. Operationalization of Variables and Instruments

Variables	Sourced	Instruments	Scale
Disclosure of Intellectual Capital	Isnalita dan Romadhon (2018)	$ICDI = \frac{\sum di}{M}$	Ratio

Board Size	Yan (2017)	BSIZE = Number of Directors in the Company	Nominal
Board Composition	Yan (2017)	BCOM = Number of Independent Directors in the Company	Nominal
Leverage	Isnalita dan Romadhon (2018)	$\text{DER} = \frac{\text{Total Debt}}{\text{Total Equity}}$	Ratio

5. RESULTS

Descriptive Statistics

Table 2. Descriptive Statistical Analysis Test Results

	N	Minimum	Maximum	*Mean*	Std. Deviation
ICDI	288	0.640000	1.000000	0.817083	0.068614
Board Size	288	2.000000	10.00000	4.201389	1.829224
Board Composition	288	0	1.000000	0.246528	0.431740
DER	288	-10.82610	22.32111	1.110326	1.944077

Source: Results of Data Processing Using EViews Version 9

The Intellectual Capital Disclosure Index (ICDI) has a minimum value of 0.640000. The maximum value is 1.000000. The average value is 0.817083, and the standard deviation value of the ICDI variable is 0.068614.

Board Size (BSIZE) has a minimum value of 2.000000. The maximum value is 10.00000 The average value of BSIZE is 4.201389 and the standard deviation value of the BSIZE variable is 1.829224.

Board Composition (BCOM) has a minimum value of 0.000000 and a maximum value of 1.00000 The average value of BCOM is 0.246528 and the standard deviation value of the BCOM variable is 0.431740.

Leverage (DER) has a minimum value of -10.82610, a maximum value of 22.32111 from Primarindo Asia Infrastructure Tbk in 2021. The average value of DER is 1.944077. And the standard deviation value of the DER variable is 1.944077.

Hypothesis Testing Results

The Regression Equation and t-Test

Table 3. The Regression Equation and t-Test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.822583	0.012653	65.00982	0.0000
BSIZE	-0.002279	0.002639	-0.863773	0.3884
BCOM	0.017862	0.010780	1.656961	0.0986
DER	-0.000295	0.002164	-0.136091	0.8918

Source: Results of EViews Data Processing Version 9

The regression equation used and the results in this study are as follows:

$$ICDI = 0.822583 – 0.002279\ BSIZE + 0.017862\ BCOM – 0.000295\ DER + \boldsymbol{\varepsilon}$$

In the equation above, it can be seen that the constant value is 0.822583. This shows that if the board size, board composition, and leverage variables have a value equal to zero or are ignored, then the Intellectual Capital Disclosure Index (ICDI) variable has a value of 0.822583.

The coefficient for board size is -0.002279. This means that if there is an increase in the board size value of one unit and the other independent variables are considered constant, then the ICDI value will decrease by 0.002279.

The coefficient value for board composition is 0.017862. This means that if there is an increase in the board composition value and other independent variables are considered constant, then the ICDI value will get an increase of 0.017862.

The coefficient value for leverage is -0.000295. This means that if there is an increase in the leverage value and the other independent variables are considered constant, the ICDI value will decrease by 0.000295.

From the results of the t-test analysis, the significance value of board size has a significance value of 0.3884, which means that it is greater than the 5% significance level (0.3884 > 0.05). This value indicates that there is no significant effect between board size on ICDI. The board size coefficient shows a value of -0.002279 meaning that the effect is negative. Thus, H1 is rejected. The results of this study are in line with research conducted by Anna and RT (2018), Isnalita and Romadhon (2018), Hidalgo et al. (2010), Alfraih (2018), and Dalwai & Mohammadi (2020). But the results of this study contradict Yan (2017), Baldini & Liberatore (2016), and Gan et al. (2013). The board of directors has full responsibility for management and management to achieve business results in an effort to optimize corporate value for shareholders. The director's role is to provide information that is relevant, accurate and timely to provide information in annual reports and financial reports in accordance with established accounting standards. The thing that can make the board of directors not significantly influential is that the more members of the board of directors, the more people in charge of making decisions. That way it will be easier for differences in information to occur because there may be differences of opinion between members of the board of directors. As a result of these differences of opinion, it will affect the information that will be reported in the annual report. Therefore, the higher the board size does not guarantee whether the board of directors will provide complete information, both qualitative and quantitative information that is disclosed in the company's annual report.

From the results of the t-test analysis, the board composition significance value has a significance value of 0.0986, which means it is greater than the 5% significance level (0.0986 > 0.05). This value indicates that there is no significant effect between board composition on ICDI. The board composition coefficient shows a value of 0.017862 meaning that the influence is positive. Thus, H2 is rejected. The results of this study contradict Yan (2017), Li et al. (2008), Baldini & Liberatore (2016), Alfraih (2018), and Dalwai & Mohammadi (2020). But the results of this study are in line with research conducted by Anna and RT (2018), Isnalita and Romadhon (2018), Hidalgo et al. (2010), and Gan et al. (2013). Board composition is intended for independent directors. Independent directors are directors who do not have share ownership and are free from other relationships that could materially interfere with an independent assessment. Independent directors in carrying out their duties are considered more neutral and objective in monitoring management activities and making decisions. However, because the independent director only monitors and oversees the company's operational activities, it is considered that the independent director cannot provide detailed information regarding the company. This causes that the higher the board composition does not guarantee that the information disclosed will be greater and the disclosure of intellectual capital will increase.

From the results of the t-test analysis, the significance value of Leverage shows a significance value of 0.8918. From this nominal it can be concluded that the numbers listed in the table are greater than the level of significance required in this study, namely with a value of 0.05, which means that leverage is not able to have a significant effect on ICDI. The leverage coefficient value shows a value of -0.000295, meaning that the influence is negative. Thus, H3 is rejected. Companies with high DER have an obligation to fulfil long-term creditor information. In this study, leverage has no significant and negative effect on ICDI, which means that a high level of leverage is not in line with intellectual capital disclosure. Companies with high levels of debt in their capital structure will be careful in making decisions, management will be inefficient in disclosing intellectual capital in annual reports so as not to be suspected by shareholders. Therefore, using the leverage variable cannot increase the intellectual capital disclosure of a company.

Coefficient of Determination (R^2)

Coefficient of Determination Test Results

Table 4. Adjusted R^2 Coefficient Test Results

R-squared	0.011932
Adjusted R-squared	0.001495

Source: Results of EViews Data Processing Version 9

Based on Table 4, it can be seen that the adjusted R^2 value is 0.001495. this shows that the board size, board composition, and leverage variables are able to explain the Intellectual

Capital Disclosure Index (ICDI) variable of 0.1495%, the rest is explained by other variables outside the study.

6. DISCUSSION

The Effect of Board Size on the Intellectual Capital Disclosure Index

From the results of the regression analysis, it is known that the significance value of board size has a significance value of 0.3884, which means that it is greater than the 5% significance level (0.3884 > 0.05). This value indicates that there is no significant effect between board size on ICDI. The board size coefficient shows a value of -0.002279 meaning that the effect is negative. The results of this study are in line with research conducted by Yan (2017), Baldini & Liberatore (2016), and Gan et al. (2013). But the results of this study contradict Anna and RT (2018), Isnalita and Romadhon (2018), Hidalgo et al. (2010), Alfraih (2018), and Dalwai & Mohammadi (2020).

The board of directors has full duties and responsibilities for management in order to achieve targets in an effort to maximize corporate value for shareholders. Providing accurate, relevant and timely information so that the information in the annual report and financial reports complies with established accounting standards is the role of the director. The thing that can make the board of directors not have significant influence is that the more members of the board of directors, the more people in charge of making decisions automatically. With so high risk of differences of opinion and information among fellow members of the board of directors. Differences of opinion can affect the information to be reported in the annual report. Therefore, the higher the board size cannot guarantee that the board of directors will provide accurate and complete information.

The Effect of Board Composition on the Intellectual Capital Disclosure Index

From the results of the regression analysis, it is known that the board composition significance value has a significance value of 0.0986, which means it is greater than the 5% significance level (0.0986 > 0.05). This value indicates that there is no significant effect between board composition on ICDI. The board composition coefficient shows a value of 0.017862 which means it is positive. The results of this study contradict Yan (2017), Li et al. (2008), Baldini & Liberatore (2016), Alfraih (2018), and Dalwai & Mohammadi (2020). But the results of this study are in line with research conducted by Anna and RT (2018), Isnalita and Romadhon (2018), Hidalgo et al. (2010), and Gan et al. (2013).

Board composition is an independent director. An independent director means a director who does not have share ownership and is free from material relationships that could interfere with independent judgment. In carrying out their duties, independent directors are seen as more neutral and objective in supervising management activities and decision making. However, because the independent director can only see and monitor the company's operational activities, it is considered that the independent director cannot provide detailed information regarding the company. This causes that the higher the board composition does not guarantee that the information disclosed will be greater and the disclosure of intellectual capital will increase.

The Effect of Leverage on the Intellectual Capital Disclosure Index

From the results of the regression analysis, it is known that the significance value of leverage has a significance value of 0.8918, which means that it is greater than the 5% significance level (0.8918 > 0.05). This value indicates that there is no significant effect between leverage on ICDI. The leverage coefficient shows a value of -0.000295 meaning that the influence is negative. The results of this study are in line with the research of Suhardhjanto and Ward (2010), Ousama et al. (2012), Whiting & Woodcock (2011). But the results of this study contradict Kateb (2014)

Companies with high DER have an obligation to fulfill long-term creditor information. In this study, leverage has no significant and negative effect on ICDI, which means that a high level of leverage is not in line with intellectual capital disclosure. Companies with high levels of debt in their capital structure will be careful in making decisions, management will be inefficient in disclosing intellectual capital in annual reports so as not to be suspected by shareholders. Therefore, using the leverage variable cannot increase the intellectual capital disclosure of a company.

7. CONCLUSIONS

Based on the hypothesis testing that has been done, the results obtained show that the board size has a negative and no significant effect on ICDI. This happened because the more members of the board of directors, the more suggestions and different opinions. This difference of opinion creates confusion which can affect the information reported in the annual report.

The board composition results show that there is a positive and insignificant effect on ICDI. There is no influence because the independent director can only see and monitor the company's operational activities, so the board composition is considered unable to convey detailed information regarding the company. So, board composition cannot be a guarantee as a large information disclosure. The leverage variable shows the result that there is a negative and insignificant effect on ICDI. leverage does not have a significant and negative effect on ICDI, which means that a high level of leverage is not in line with disclosure of intellectual capital. Companies with high debt levels will make their management inefficient in disclosing intellectual capital disclosure. So, leverage cannot increase the intellectual capital of a company.

The results of this study have reached a conclusion that the number of independent directors is positive and has no significant effect on intellectual capital disclosure, the number of directors and leverage has a negative effect and does not have a significant effect on intellectual capital disclosure.

The limitations of this study are: 1) Data only from companies in the manufacturing sector; 2) Using only three types of independent variables, namely board size, board composition, and leverage; 3) The sample is only used for two years, namely 2020-2021.

Suggestions for this research are: 1) Increase the number of other independent variables that can affect intellectual capital disclosure such as the number of commissioners, independent commissioners, KAP scale, and government ownership; 2) Use other sectors besides manufacturing; 3) Extend the research period and adding research samples so that the research results can be more accurate.

ACKNOWLEDGMENT

This work was supported by the Faculty of Economics and Business - Universitas Tarumanagara - Jakarta and the Indonesia Stock Exchange (IDX).

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