The Impact of Intellectual Capital Disclosure and Information Asymmetry on the Cost of Equity Capital: an Empirical Investigation in Indonesia

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Abstract

This research aims to analyze the impact of Intellectual Capital Disclosure and Information Asymmetry on Cost of Equity Capital and stock prices. It used purposive sampling and studied LQ 45 companies enlisted in 2014-2015 Indonesia Stock Exchange. The research data gathered through non-partisan observation method and then analyzed with PLS analysis equation. The result shown: (1) Information Asymmetry has positive significance towards stock price; (2) Intellectual Capital has insignificant positive influence towards stock price; (3) Intellectual Capital has insignificant positive influence towards Cost of Equity Capital; (4) Information Asymmetry has insignificant positive towards Cost of Equity Capital; (5) Cost of Equity Capital has insignificant negative influence towards stock price. This research result validate previous researches' findings especially in agency theory and asymmetry theory.

Key words: *Cost of Equity Capital, Intellectual Capital, Information Asymmetry*

JEL classification: *G32*

Introduction

The growingly complex economic development creates issue in intellectual capital disclosure. Now academics, corporations, and investors have more concern towards intellectual capital. Intellectual capital disclosure in yearly corporation report is observed more. Because corporations are more aware on the important role of intellectual capital towards corporation's value.

Corporation expect positive result intellectual capital the corporation have to be known by external stakeholders (Daud & Amri, 2008; Firer & Williams, 2003; Sawarjuwono & Kadir, 2003).

Numerous existing literatures said intellectual capital disclosure has negative influence towards cost of equity capital (Brüggen, Vergauwen, & Dao, 2009; FASB, 2000; IASB, 2005; Leuz & Verrecchia, 2000; Levitt, 1998; Lippoldt, 2008; Mangena, Pike, & Li, 2011; Pulic, 1998). They argued that a corporation needs to reveal intellectual capital to minimize the risk of information gap, to minimize the risk of insider trading, and help to improve financial report. Besides, the larger intellectual capital disclosure information is, the higher the investor interest, and the lower investment risk estimation and information asymmetry, therefore it can decrease corporation's cost of equity capital.

Botosan (2006) support negative relation between revelation and cost of equity capital. He stated that larger revelation raise stock market liquidity, therefore it will lower cost of equity capital. Boujelbene & Affes (2013) stated that there is negative significant relation between two elements revelation in intellectual capital (Human Capital Efficiency and Structural Capital Efficiency) with cost of equity capital.

In Indonesia there are only a few of researches that discuss the impact of Intellectual Capital Disclosure (Barus & Siregar, 2014; Daud & Amri, 2008; Ifonie, 2012; Kuryanto & Syafruddin, 2009). But previous research only analyzed the influence of intellectual capital revelation completely without (analyzing each component). Accordingly, this study attempts to extend previous studies by examining the impact of Intellectual Capital Disclosure in depth based on its components (Human Capital Efficiency, Structural Capital Efficiency and Capital Employed Efficiency). Besides, this research also analyzed the implication of Intellectual Capital Disclosure and Asymmetry Information towards corporation's stock price. This research only focused on LQ45 corporations in 2014-2015 Stock Exchange.

Literature Review

The concept of intellectual capital started being known in the early 1990s. Intellectual capital has been enforced to generate an advanced value to the organization. It is the result of effective experience and knowledge that create a competitive advantage (Bontis, Keow, & Richardson, 2000; Stewart & Ruckdeschel, 1998).

Based on signaling theory, the corporation tries to give positive signal to external parties. One of its ways is by intellectual capital revelation in yearly report. Bontis, Keow, & Richardson (2000), Brüggen, Vergauwen, & Dao (2009) and Mangena, Pike, & Li, (2011) *have proven that the benefits the corporation get on the increase of voluntary information revelation, including intellectual capital, is the decrease of cost of equity capital.*

The experts viewed that Intellectual Capital Disclosure has negative influence towards Information Asymmetry. This can improve market liquidity, therefore it will decrease the corporation's cost of equity capital (FASB, 2000; IASB, 2005; Leuz & Verrecchia, 2000; Levitt, 1998; Lippoldt, 2008; Mangena et al., 2011). Information Asymmetry is information gap between manager and other stakeholders, where manager know more about internal information and corporation's prospect in the future compared to the other stakeholders. The smaller the Information Asymmetry between manager and stockholders or other stakeholders, the smaller self capital cost paid by corporation. (Botosan, 2006; Boujelbene & Affes, 2013; Mangena et al., 2011).

In this research, Intellectual Capital consisted of three components, i.e.: Human Capital Efficiency, Structural Capital Efficiency and Capital Employed Efficiency. Human Capital Efficiency reflects corporation collective capability to generate best solution based on the knowledge of the employees. Structural Capital Efficiency is the corporation capability in fulfilling company routine process and structure. This component focused on supporting employees' efforts for optimum working performance. Meanwhile Capital Employed Efficiency is the amount of capital or asset for profit acquisition (Bontis, Keow, & Richardson, 2000; Sawarjuwono & Kadir, 2003).

The researchers who proved that the increasing intellectual capital disclosure will lower Cost of Equity Capital are Leuz & Verrecchia (2000), Levitt, (1998) and Mangena, Pike, & Li (2011). They also stated that the higher Intellectual Capital Disclosure level of corporation, the lower the cost of equity capital paid by corporation. Boujelbene & Affes (2013) also found that there is negative significant between two components Intellectual Capital (Human Capital Efficiency dan Structural Capital Efficiency) towards cost of equity capital. There is negative influence of relational capital towards cost of equity capital not stated as valid. Further, (Chen, Cheng, & Hwang, 2005; Maditinos, Šević, & Tsairidis, 2010; Mangena et al., 2011) concluded that the larger the corporation reveal intellectual capital in yearly report, the lower the equity cost is. It is because the investors find useful information to assess the company.

Based on the above description, the research hypothesis is as following:

H1: There is Intellectual Capital influence towards Cost of Equity Capital

H2: There is Information Asymmetry influence towards Cost of Equity Capital

H3: There is Intellectual Capital influence towards stock price

H4: There is Information Asymmetry influence towards stock price

H5: There is Cost of Equity Capital influence towards stock price

H6: There is Intellectual Capital influence towards stock price through Cost of Equity Capital as intervening variable

H7: There is Information Asymmetry influence towards stock price through Cost of Equity Capital as intervening variable

Research and Methodology

This research is hypothesis testing, in this case testing the hypothesis on the influence of the revelation of Intellectual Capital Disclosure and Information Asymmetry towards cost of equity capital and the implication towards stock price in the LQ45 corporations in Indonesian Stock Exchange. The sample corporations in this research are selected by purposive sampling in order to gather the representative samples suitable with the required criteria. The sample criteria used are: 1) Corporations enlisted in LQ45 index in 2014-2015 Indonesian Stock Exchange that publish annual report completely during 2014 to 2015 in Indonesian Stock Exchange's website; 2) Reveal intellectual capital dan Information Asymmetry information during 2014-2015 in annual reports; 3) Having complete data related to variables used in the research. The suitable data are 36 corporations (72 observations).

Detail of research variable, indicator, and research measurement from each variable can be seen from the following table:

Table 1: Research, Indicator, Measurement Formula, and Measurement Scale Variable

No	Research Variable	Indicator	Measurement Formula	Measurement Scale
Exogen Variable				
1	Revelation Intellectual Capital X1	X 1 <i>Human Capital Efficiency (HCE)</i>	HCE = VA / HC Description: VA = OUT – IN OUT= Total Income IN = Operating Expenses except employee benefits HC = Employees' salary and benefits	Ratio
		X 2 <i>Structural Capital Efficiency (SCE)</i>	SCE = SC / VA Description: SC = VA – HC	
		X 3 <i>Capital Employed Efficiency (CEE)</i>	CEE = VA / CE Description : CE = The available fund (The amount of equity and net profit)	
2	Information Asymmetry	X 4 <i>bid-ask spread</i>	$SPREAD_{i,t} = (ask_{i,t} - bid_{i,t}) / \{(ask_{i,t} + bid_{i,t}) / 2\} \times 100$ Description: Ask _{i, t} = highest ask value of corporation i stock that occur on t day (on annual report publication date) Bid _{i, t} = lowest bid price company stock i occur on day t (on annual report publication date)	Ratio
Endogen Variable				
3	Cost Of Equity Capital (Y1)	Discount rate from future cash flow(r)	$r = (B_t + (X_{t+1}) - P_t) / P_t$ Description: r = cost of equity capital B _t = book value per share t period P _t = stock price on t period X _{t+1} = profits per share t+1 period	Ratio
4	Harga Saham (Y2)	Stock return	$R_{it} = P_{it} - P_{it-1} / P_{it-1}$ Description: R _{it} = Stock Return P _{it} = Stock price on t-period P _{it-1} = Previous period stock price	Ratio

Source: Processed in 2017

Data in this research are gathered through non-participant method, i.e., data gathering from documents, financial data in Indonesian Capital Market Directory (ICMD) and direct access to website www.idx.go.id. Next, data analyzed with PLS analysis equation model, on the basis that one of latent variables formed with formative indicator, i.e., latent variable Intellectual Capital consisted of Human Capital Efficiency, Structural Capital Efficiency and Capital Employed Efficiency.

Descriptive Analysis

Descriptive analysis statistics used to acquire data sample general description. This research used (independent) exogenous variable Intellectual Capital consisted of Human Capital Efficiency, Structural Capital Efficiency, Capital Employed Efficiency and Information Asymmetry measured with bid–ask spread. (Dependent) Endogenous Variable used is Cost of Equity Capital and stock price measured with stock return. The result of descriptive analysis can be seen from the following table:

Table 2: Descriptive Statistics

Variable	Average	Std. Deviation	Maximum	Minimum
Human Capital Efficiency (HCE)	0,74	0,56	1,04	-2,15
Structural Capital Efficiency (SCE)	0,53	2,70	22,99	-1,62
Capital Employed Efficiency (CEE)	0,36	0,32	1,90	0,08
Information Asymmetry (bid–ask spread)	-0,106	2,397	14,892	-0,986
Cost of Equity Capital (r)	0,74	0,56	1,04	-2,15
Stock Return	0,127	0,553	2,628	-0,638

Source: Data processed in 2017

Table 2 served data processing result which shown minimum, maximum, average, and deviation standard value from Human Capital Efficiency, Structural Capital Efficiency, Capital Employed Efficiency, Information Asymmetry measured by bid–ask spread, Cost of Equity Capital and stock return. From 72 samples in 2014-2015 Human Capital Efficiency there is minimum value as much as -2,15, maximum value as much as 1.04, average as much as 0,74 and deviation standard as much as 0,56. Average Human Capital Efficiency as much as 0,53 shows the difference between total income and operating expenses except employees' salary and benefits towards quite big salary and benefits which reached 0,53 times. It shows that the corporation has quite big value added compared to its Human Capital.

Structural Capital Efficiency has minimum value as much as -1.62, maximum average value is as much as 1.04, average value as much as 0.36 and deviation standard as much as 0.32. Average Structural Capital Efficiency as much as 0.74 shows that value added generated from relatively small structural capital. Corporation is not able to optimize it's structural capital to facilitate employees' attempts in making value added yet.

Capital Employed Efficiency has minimum value as much as 0.08, and deviation standard as much as 1,90, average as much as 0.36 and deviation standard as much as 0.32. Average Capital Employed Efficiency is as much as 0.36 shows that the corporation's value added generated by the capital used by the corporation that able to reach 0.36 times.

Information Asymmetry measured with bid–ask spread has minimum value as much as -0.986, maximum value as much as 14,892, average as much as 0.106 and deviation standard as much as 2.397. Average bid–ask spread as much as 0.106 shows that average information asymmetry between manager and stockholders is very small, where manager knows more about internal information and company prospect in the future compared to other stockholders or stakeholders, Cost of Equity Capital has minimum value as much as -2.15, maximum value as much 1.04, average as much as 0.74 and deviation standard as much as 0.56. Average Cost of Equity Capital as much as 0.74 shows that minimum rate of return needed by investors to be willing to invest their capital to the corporation as much as 74, and return stock has minimum value as much as -0.638, minimum value as much as 2.628, average rate is as much as 0.127 and deviation standard is as much as 0.553. Average stock rate of return is as much as 0.127 shows that rate of return in sample corporations in 2014-2015 is rising.

Construct Validity Test

Construct Validity Test measured with outer weight (man,stdev,Tvalue) from the following table of Content:

Table 3: Construct Validity Test

	T Statistics (O/STERR)
Capital Employed Efficiency (CEE) -> Intellectual Capital	0.027101
Human Capital Efficiency (HCE) -> Intellectual Capital	0.000196
Structural Capital Efficiency (SCE) -> Intellectual Capital	2.240981

Source: 2017 data process result

From the Table 3 above, T Statistics Value Statistics, only Structural Capital Efficiency stated as valid i.e., 2.240981 ($\geq$ T table = 1.96), but in validity test refers to parsimony, if formative indicator is not valid, then the decision towards this model stays Valid.

Goodness of Fit Model Test

Statistically, Goodness of Fit test can be carried out by measuring determination coefficient value (R^2_m). Goodness of Fit Model test's result can be seen in the table 4:

Table 4: Goodness of Fit Model Test Result

Dependent Variable	R^2
Cost of Equity Capital (r)	0.999900
Return Saham	0.999993
$R^2_m = 1 - (1 - R_1^2) (1 - R_2^2)$ $= 1 - (1 - 0.999900) (1 - 0.999993)$ $= 1 - (0.0001 \times 0.000007)$ $= 0.99$	

Source: 2017 Data Process Results

From the above table R^2_m value shows 0.99 can be interpreted that the model can explain the researched phenomenon as much as 99%. Based on this value, then the model formed very well because it is approaching 1, able to predict endogenous variable and appropriate to be used for hypothesis testing.

Hypothesis Testing Significance Test

Hypothesis testing used to find whether there is any exogenous variable towards endogenous variable. Testing criteria stated that if T Statistics bigger than critical value ($t\text{-table} = 1.96$) then it is declared that there is significant influence between exogenous variable towards endogenous variable. Hypothesis testing can be implemented through T statistics in this following table:

Table 5: Path Coefficients (Mean, STDEV, T-Values)

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	Standard Error (STERR)	T Statistics (O/STERR)
AI -> COC	0,745740	0,537471	0,435035	0,435035	1,714208
AI -> HRG SHM	0,771859	0,505400	0,375632	0,375632	2,054827
COC -> HRG SHM	-0,002839	-0,025183	0,101557	0,101557	0,027959
IC -> COC	0,254210	0,250295	0,383617	0,383617	0,662666
IC -> HRG SHM	0,230978	0,271328	0,210941	0,210941	1,094984

Source: 2017 Data Process Results

Hypothesis Testing 1

In the testing in the above table, it is known that T Statistics Intellectual Capital influence towards Cost of Equity Capital is 0.662666 (≤ 1.96 , insignificant), then it can be said that Intellectual Capital influence towards insignificant Cost of Equity Capital.

Hypothesis Testing 2

In the testing in the above table it can be known that Information Asymmetry towards Cost of Equity Capital is 1.714208 (≤ 1.96 , insignificant), it can be stated that the influence of Information Asymmetry towards Cost of Equity Capital is insignificant.

Hypothesis Testing 3

In the testing in the above table it can be known that T Statistics Intellectual Capital influence towards stock price is 0.662666 (≤ 1.96 , insignificant), that can be stated that Intellectual Capital influence towards stock price is insignificant.

Hypothesis Testing 4

In the testing in the above table it can be known that Information Asymmetry towards stock price is 2.054827 (≥ 1.96 , insignificant), therefore it can be stated that Information Asymmetry influence is significant towards stock price.

Hypothesis Testing 5

In the testing in the above table it can be known that Cost of Equity Capital towards stock price is 1.094984 (≤ 1.96 , insignificant), therefore it can be said that the influence of Cost of Equity Capital towards stock price is insignificant.

Hypothesis Testing 6

In the testing in the above table it can be known that T Statistics influence Intellectual Capital towards Intellectual Capital towards Cost of Equity Capital is 0.662666 (≤ 1.96 , insignificant), and T Statistics influence Cost of Equity Capital towards stock price is 0.027959 (≤ 1.96 , insignificant). Because the two relations is insignificant, therefore it can be stated that Intellectual Capital influence towards stock price through Cost of Equity Capital is insignificant.

Hypothesis Testing 7

T Statistics Information Asymmetry influence towards Cost of Equity Capital is 1.714208 (≤ 1.96 , insignificant), and T Statistics Cost of Equity Capital influence towards stock price 0.027959 (≤ 1.96 , insignificant). Because those two relation is insignificant therefore it can be stated that Information Asymmetry influence towards stock price through Cost of Equity Capital is insignificant.

Inter-Research Variable Influence

Inter-research variable relation analysis result described to visualized inter-research variable is as following:

Source: 2017 Processed Data Result

Figure 1: Hypothesis Test Result

Path Diagram Conversion into Structural Model

The conversion of path diagram into structural model is meant to know exogenous variable towards endogenous variable, directly or indirectly, through mediation variable as followings:

Table 6. Direct, Indirect, and Total Influence

Exogenous	Endogenous	Mediation	Direct	Indirect	Total
Intellectual Capital	Cost of Equity Capital		0.254		0.254
Information Asymmetry	Cost of Equity Capital		0.784		0.784
Intellectual Capital	Stock Price	Cost of Equity Capital	0.231	$0.254 \times -0.003 = -0.000762$	0.230238
Information Asymmetry	Stock Price	Cost of Equity Capital	0.1772	$0.784 \times -0.003 = -0.002352$	0.769648
Cost of Equity Capital	Stock Price		-0.003		-0.003

Source: 2017 data processing result

From the table above it can be known that:

1. Direct Influence

Intellectual Capital direct influence coefficient has positive value towards Cost of Equity Capital which means the increasing Intellectual Capital tends to increase *Cost of Equity Capital*. Information Asymmetry direct influence coefficient measured with bid–ask spread that has positive value towards Cost of Equity Capital, it means the increasing Information Asymmetry measured with bid–ask spread tends to increase Cost of Equity Capital.

Intellectual Capital direct influence coefficient has positive value towards stock price, it means that the increase of Intellectual Capital tends to increase stock price. Information Asymmetry direct influence coefficient measured with bid–ask spread tends to increase stock price.

Cost of Equity Capital direct influence coefficient has negative value towards stock price, it means the increase of Cost of Equity Capital tends to decrease stock price.

2. Indirect Influence

Cost of Equity Capital has negative influence towards stock price, it shows that the increasing Intellectual Capital tends to cause the decrease of Cost of Equity Capital therefore it cause stock price to increase.

Cost of Equity Capital indirect influence coefficient has negative value towards Information Asymmetry will cause the decrease of Cost of Equity Capital therefore it cause stock price to increase.

Discussion

Intellectual Capital influence that consisted of Human Capital Efficiency and Capital Employed Efficiency are insignificant towards Cost of Equity Capital and also towards stock price. This finding supports some previous studies (Boujelbene & Affes, 2013; Kuryanto & Syafruddin, 2009; Mangena et al., 2011; Nguyen & Nguyen, 2017; Sawarjuwono & Kadir, 2003). It indicates that corporations with intensive technology in Indonesia is not considered relevant yet by investor to determine minimum return rate when they invest their capital to corporation. From the three factors determining Intellectual Capital, only Structural Capital Efficiency that is valid, showed that investor still see company's competency in conducting company routine activity, various structures and process that enable the employees to give best quality to be more productive.

The influence of Information Asymmetry measured with bid–ask spread is insignificant towards Cost of Equity Capital but significant towards stock price. This indicates manager's attempt to minimize Information Asymmetry in order to maximize company's value, when there is information asymmetry, revelation decision made by the manager can influence stock price because Information Asymmetry between more informed investor and less informed investor can cause transaction cost and decrease liquidity in company's stock market. As Brüggén, Vergauwen, & Dao, (2009), Ifonie (2012) and Mangena, Pike, & Li, (2011) argues that company need to reveal intellectual capital information to minimize the risk of information gap, decrease the risk of insider trading in the company, and helps to increase financial report quality. Besides, the larger intellectual capital information revelation is, the lesser investment risk estimation and information asymmetry is, therefore it can cause company cost of equity to decrease.

The influence of Cost of Equity Capital is insignificant towards stock price. This indicates that when investor will invest, they will not use regular stock capital as rate to discount dividend expected to be accepted in the future. According to Byun, Kwak, & Hwang (2008); Fairfield, Whisenant, & Yohn (2003) Mohamad & Saad (2010), from investor's point of view, one of the important indicators to rate company prospect in the future is by seeing how far the company

profitability growth is, one of it is by Return On Asset (ROA). This indicator is very important to be noticed to understand how far the company assets capable to generate profits that will influence the increase of stock price and capable generating appropriate return suitable with the investor wanted rate.

Cost of Equity Capital indirect influence has negative value towards stock price, hypothesis test result is insignificant. It shows that the increase of Intellectual Capital will cause the decrease of Cost of Equity Capital therefore causing stock price to increase. It means with the increase of Intellectual Capital revelation, the information asymmetry among market participants can be reduced and increase investor interest to invest. The wider revelation of the three intellectual capital elements (human capital, structural capital, and capital employed) will narrow bid-ask spread and decrease company cost of equity capital. Therefore the higher the revelation level of each intellectual capital component (human capital, structural capital and Capital Employed), the lower company cost of equity capital and the higher stock price becomes (Byun, Kwak, & Hwang, 2008; Fairfield, Whisenant, & Yohn, 2003; Maditinos, Šević, & Tsairidis, 2010; Mohamad & Saad, 2010).

Cost of Equity Capital indirect influence has insignificant negative value towards stock price. This shows that the increase of Information Asymmetry will cause the decrease of Cost of Equity Capital therefore causing stock price to increase. Moreover, Information Asymmetry direct influence towards stock price is significant. It means the investor still considers Information Asymmetry because Information Asymmetry between more informed and less informed investor will cause transaction cost and influence liquidity in company stock market (Brüggen et al., 2009; Healy & Palepu, 2001; Ifonie, 2012; Mangena et al., 2011).

Conclusion

This research aims to analyze Intellectual Capital Disclosure and Information Asymmetry influence towards Cost of Equity Capital towards stock price. Based on analysis result and hypothesis testing result conducted, this research concludes: 1) Intellectual Capital influence consisted of Human Capital Efficiency, Structural Capital Efficiency and Capital Employed Efficiency is insignificant towards Cost of Equity Capital and also towards stock price; 2) Information Asymmetry influence measured with bid-ask spread is insignificant towards Cost of Equity Capital but significant towards stock price; 4) Cost of Equity Capital indirect influence has negative value towards stock price, it shows that the increase of Intellectual Capital will cause the decrease of Cost of Equity Capital therefore it cause stock price to increase; 6) Cost of Equity Capital indirect influence has negative value towards stock price, this shows that the increase of Information Asymmetry will cause the decrease of Cost of Equity Capital therefore it cause the stock price to increase.

Based on the explanation, the company is advised to reveal intellectual capital information. Therefore able to decrease Information Asymmetry and maximize company's value. The wider revelation of three intellectual capital elements (human capital, structural capital and capital employed) will narrow bid-ask spread therefore it decrease company's cost of equity capital. Besides, investor really consider Information Asymmetry because Information Asymmetry between more informed investor and less informed investor will cause transaction cost and influence liquidity in company's stock market.

If observed based on the power of relation, impact of each variable simultaneously, is weak. In this case the researcher assume that there is other variable has influence but not included in this

research. Based on that thing, the next researchers are expected to add research variables, i.e., profitability or other ratios.

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