# MONITORING MECHANISMS AND INTELLECTUAL CAPITAL DISCLOSURE AMONG BANKS IN THE GCC

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## ABSTRACT

*The purpose of this paper is to examine the relationship between monitoring mechanisms namely, board and audit committee effectiveness, foreign and domestic institutional ownership and competition with voluntary disclosure of intellectual capital (IC) among listed banks in the Gulf Co-Operation Council (GCC) region. The content analysis was used to analyse IC disclosures of 137 listed GCC banks. A regression model is utilized to analyze the data. The results suggest that the monitoring mechanisms have significant relationship with the quantity of IC information disclosed. The findings contribute to support agency theory by indicating that corporate governance mechanisms and corporate voluntary disclosure can be used strategically by considering the mechanisms as a bundle since they work complimentary to reduce agency conflicts. In addition, the finding also suggests that foreign institutional ownership have more monitoring capacities than domestic institutional investors in relation to IC disclosure.*

**Keywords:** Board Effectiveness; Audit Committee Effectiveness; Monitoring Mechanisms; Intellectual Capital Disclosure; Banks; GCC.

## INTRODUCTION

Studies to examine the association of voluntary disclosure and corporate governance mechanisms have been done extensively in different countries for various sectors (e.g. Alfraih & Almutaw, 2017; Jaffar, et al. 2013; Saha & Akter, 2013). The current study focuses on a particular type of voluntary disclosure, which is intellectual capital (IC) disclosure since it is an important dimension of voluntary disclosure for which there is a growing demand (Holland, 2003, Burgman & Roos, 2007). IC is the key driver of the company's competitive advantage, and disclosing it reduces investors' uncertainty about future prospects and facilitates a more precise valuation of the company (Barth et al., 2001; Bukh et al., 2005; Holland, 2006; Li *et al.*, 2012). Despite the importance of IC disclosure, the company is disclosing it voluntarily (Petty & Cuganesan, 2005; Zhang, 2001). IC is specific to a particular company and cannot be seen from other companies. Smaller shareholders are at disadvantages if the information about IC is not disclosed because they do not have access to the information. Thus, corporate governance mechanisms are more critical for IC than other types of disclosure inasmuch as it involves information asymmetry more (Aboody & Lev, 2000; Hidalgo *et al*. 2010). Agency cost due to opportunities for moral hazard, adverse selection and other opportunistic behaviour of management will be increased (Aboody & Lev, 2000; Holland, 2006). Therefore, governance mechanisms might act to reduce agency cost by enhancing voluntary disclosure of IC information (Ramadan & Majdalany, 2013).

A combination of several governance mechanisms can be considered better for reducing the agency cost and protecting the interests of shareholders because of the effectiveness of corporate governance being achieved via different channels (Cai et al., 2008) and a particular mechanism's effectiveness depends on the effectiveness of others (Davis & Useem, 2002;