The Impact of Firm Characteristics on Mandatory Disclosure of Companies Listed on the Indonesia Stock Exchange

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Abstract: This study examines the impact of firm characteristics on mandatory corporate disclosures. The company has an incentive to make mandatory disclosures. One is to show that the company has better performance than other companies. This study aims to determine what characteristics of the company that influence the mandatory disclosure. By using a sample of annual financial reports from 207 companies listed on the Indonesian Stock Exchange (IDX) in 2017 and OLS analysis techniques this research was conducted. The results prove that managerial ownership, foreign ownership, profitability and industry type affect the level of mandatory corporate disclosure. Consistent with initial predictions, high managerial ownership establishes management position and reduces public disclosure demands. As a result it reduces the level of mandatory disclosure. On the other hand, high foreign ownership encourages management to make better mandatory disclosures to meet the demands of foreign investors. A high level of profitability also encourages better mandatory disclosure to show the performance to the market in order to get investors. The demand for comprehensive reporting in the financial industry sector also encourages better mandatory disclosure.

1 INTRODUCTION

The development of equity markets has increased the demand for public disclosure by companies (Choi and Meek, 2005). High disclosure is considered as a form of protection for investors and efforts to maintain value for shareholders. For this reason, the quality of disclosures in financial reporting is very valuable. In addition, the development of equity markets also creates conflicts, especially between managers who are known as agents (company management) and principals or shareholders. This has been stated long ago as agency theory by Jensen and Meckling (1976). Conflicts will arise when both the agent and principal try to maximize their personal interests. As a result, top management can take actions that are not in accordance with the wishes of the capital owner or even endanger the interests of the owner (Kulik, 2005; Birjandi, Hakemi and Sadeghi, 2015). This situation can lead to moral hazard within the company (White, Lee and Tower, 2007). This can be exacerbated by the existence of informational asymmetry between agent and principle because the agent as manager has more information than principle (Beaver, 1989). One way to reduce the superior position of management over information is by providing public disclosure (Beaver, 1989).

The disclosure of financial statements consists of two categories, namely mandatory disclosure (mandatory disclosure) and voluntary disclosure (voluntary disclosure). Mandatory disclosure is the disclosure of certain elements of information requested by parties that have authority over the company while voluntary disclosure is additional disclosure outside of mandatory disclosure (Popova *et al.*, 2013). Companies will tend to carry out mandatory disclosures because they are asked by the existing authorities. Nevertheless, the results of previous studies show that the average disclosure of mandatory companies in various countries does not show a maximum level of disclosure. Mandatory disclosure to companies in Germany, Australia, France, Italy, the Netherlands and the United Kingdom in 2004 to 2006 showed an average rate of 70% (Akman, 2011). Similarly, the level of

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mandatory disclosure in Indonesia in manufacturing companies listed on the Stock Exchange in 2009 to 2010 shows an average rate of 72% (Utami, Suhardjanto and Hartoko, 2012).

The characteristics of the company in the previous research are related to the level of corporate disclosure. The underlying theory is agency theory and signal theory (Haniffa and Cooke, 2002). According to agency theory which has been explained previously, disclosure is a form of accountability to owners in order to reduce conflict and information asymmetry. Signal theory is also the basis for understanding how two parties overcome the limitations of information in a precontractual context (Wells, Valacich and Hess, 2011). The signal sender can choose what and how to communicate to the other party (recipient) (Connelly *et al.*, 2011). Within the framework of signal theory, information gaps are expected to be reduced and recipients of information believe in the quality of the product or service offered so that an expected contract occurs (Wells, Valacich and Hess, 2011). In accounting, signal theory is generally used to explain the positive signal of management to the market (McMillan, 2010). In this case superior companies will display better information about their activities to differentiate them from others so that the trust and interest of investors increases (Birjandi, Hakemi and Sadeghi, 2015). The characteristics of the company are divided into three categories, a) related to the structure (including size, leverage, complexity, fixed assets and ownership structure); b) Performance (profitability); and c) related to markets (including industry type, auditor type, age) (Haniffa and Cooke, 2002; Birjandi, Hakemi and Sadeghi, 2015).

Until now the results of research on the impact of firm characteristics on mandatory disclosure are still being carried out because the results have not been consistent. Although it succeeded in showing a significant effect for several characteristic variables, the direction of the relationship did not show the same results. For industrial type variables, no comparison has been made between the type of financial industry and the type of non-financial industry. For this reason, the author conducts research on the impact of firm characteristics on mandatory disclosure of companies in Indonesia.

2 LITERATURE REVIEW AND HYPOTHESES

2.1 Company Size and Mandatory Disclosure

Companies with large corporate size tend to increase their mandatory disclosure because they have the ability to allocate large resources in collecting and presenting information and are highly dependent on external financing in their operational activities (Owusu-Ansah, 1998; Barako, Hancock and Izan, 2006). In addition, large companies have varied accounting activities and policy choices so that disclosure is also higher and varied (Rahman, Perera and Ganesh, 2002). Managers of large companies are more aware of the benefits of disclosure while managers of small companies tend to feel that high disclosure can harm their competitive position (Rouf, 2011; Elsakit and Worthington, 2014). The cost of distributing financial information to large companies is also lower because large companies have more financial expertise and resources than small companies (Agyei-mensah, 2012). Owusu-Ansah (1998) succeeded in proving that firm size has a positive and significant effect on the mandatory disclosure and reporting practices of companies.

H1. Company size has a positive effect on the mandatory disclosure of the company.

2.2 Leverage and Mandatory Disclosure

Leverage is the ratio of total debt to equity that is considered to affect disclosure (Clemente and Labat, 2009; Iatridis, 2012; Murcia and Santos, 2012). Based on signal theory, leverage can reduce disclosure because high disclosure is more emphasized for equity financing so that a high level of leverage will reduce public pressure to disclose (Ball, 1995; Meek, Roberts and Gray, 1995; Rahman, Perera and Ganesh, 2002). Meanwhile agency theory explains that companies with a large proportion of debt have higher agency costs due to increased wealth transfer potential to shareholders and managers (Jensen and Meckling, 1976; Meek, Roberts and Gray, 1995; Rahman, Perera and Ganesh, 2002; Barako, Hancock and Izan, 2006; Lopes and Rodrigues, 2007; Urquiza, Navarro and Trombetta, 2010). In this case high debt levels encourage increased disclosure to provide guarantees and to improve communication with creditors (Watts and Zimmerman, 1990; Craig and Diga, 1998; Clemente and Labat, 2009). High disclosure is also needed to increase the opportunity to obtain more funds from financial institutions (Barako, Hancock and Izan, 2006; Agyei-Mensah, 2013).

H2. Leverage has a positive effect on the mandatory disclosure of the company.

2.3 Complexity and Mandatory Disclosure

Complexity is often interpreted as 'depth' or 'extent', of technology, products, processes and administration (Wang and von Tunzelmann, 2000). In companies with complex cases, the financial statements also become complex and can have a negative impact on the information environment (Guay, Samuels and Taylor, 2016). Users tend to have difficulty reading financial statements on complex information so information asymmetry tends to be high (Merkl-davies and Brennan, 2007). For that disclosure of information outside of financial statements is needed to minimize agency conflicts and to increase the trust of investors (Schwarcz, 2004). In companies with high complexity, an effective management information system is needed by encouraging increased disclosure (Haniffa and Cooke, 2002; Alanezi *et al.*, 2012).

H3. Complexity has a positive effect on the mandatory disclosure of the company

2.4 Assets in Place and Mandatory Disclosure

Financial reporting is one way to reduce agency problems (Jensen and Meckling, 1976; Healy and Palepu, 2001). According to agency theory, large corporate fixed assets have an impact on decreasing agency costs. In conditions of low agency costs the demands for disclosure are lower (Myers, 1977; Haniffa and Cooke, 2002). Managers are more difficult to misuse large fixed assets compared to small fixed assets, thus reducing the company's dependence on disclosure (Hossain and Hammami, 2009).

H4. Assets in place has a negative effect on the mandatory disclosure of the company

2.5 Managerial Ownership and Mandatory Disclosure

Management has an incentive to disclose information to stakeholders in a number of different ways (Donnelly and Mulcahy, 2008). Share ownership by managers can motivate managers to behave like shareholders and reduce managers' desire to withhold information (Nikolaj Bukh *et al.*, 2005; Akhtaruddin *et al.*, 2009). As a result, large managerial ownership will increase disclosure (Nagar, Nanda and Wysocki, 2003; Nikolaj Bukh *et al.*, 2005; Akhtaruddin *et al.*, 2009). But on the other hand additional managerial ownership can also strengthen management positions so that disclosure may decrease (Ajinkya, Bhojraj and Sengupta, 2005; Donnelly and Mulcahy, 2008).

H5. Managerial Ownersip has a negative effect on the mandatory disclosure of the company

2.6 Foreign Ownership and Mandatory Disclosure

Ahmed & Nicholls (1994) revealed that differences in disclosure rates occur between foreign-owned companies and locally-owned companies because of the need to disclose with different versions between local regulations and regulations commonly known by investors. The demands for presenting various versions of disclosure will encourage high disclosure (Craig and Diga, 1998). Foreign investors usually agree to own companies with the belief that the company will make a big profit. For this reason foreign investors usually improve monitoring of companies and companies will anticipate by encouraging greater disclosure compliance (Bova and Pereira, 2012). Therefore the demand for disclosure will be greater when the proportion of shares owned by foreigners is higher (Bradbury, 1991).

H6. Foreign Ownersip has a positive effect on the mandatory disclosure of the company

2.7 Profitability and Mandatory Disclosure

Profitability is a measure of operational efficiency through the ratio of return on turnover or the overall performance of a company through the ratio of return on capital (Owusu-Ansah, 1998). Companies that earn returns or profits have an incentive to differentiate themselves from companies that are less profitable in order to get capital from existing choices (Meek, Roberts and Gray, 1995). Therefore, companies with good performance are more likely to make disclosures about potential income in the future because it can affect potential investors to invest in the company (Haniffa and Cooke, 2002; Lokman, Mula and Cotter, 2011; Agyei-mensah, 2012; Alanezi *et al.*, 2012; Balakrishnan, Li and Yang, 2014). Profitability is also the result of investment, thus encouraging companies to make higher disclosures as an important signal that the owner's investment decisions are appropriate (Li, Pike and Haniffa, 2008).

H7. Profitability has a positive effect on the mandatory disclosure of the company

2.8 Industry Type and mandatory disclosure

Corporate disclosure practices are usually different for different industries, determined by the type of product line or product diversity. For example, companies with consumer products are usually very concerned about their public image or multi-product companies that have more information than companies with one product (Owusu-Ansah, 1998; Haniffa and Cooke, 2002). In addition, certain industries are more sensitive than others such as banks that have great pressure to disclose (Craig and Diga, 1998). Disclosure is also more comprehensive in several industries such as utilities and the financial services sector when compared to the publishing industry due to different ownership costs (Boesso and Kumar, 2007).

H8. Industry Type has an effect on the mandatory disclosure of the company

2.9 Company Age and mandatory disclosure

Many companies that have just joined the stock market have low disclosure quality because they are more oriented and concentrate on developing technology, products or markets and assessing less important accounting functions (Glaum and Street, 2003). On the other hand, a number of newly registered companies want to increase additional capital at the lowest cost so that they disclose more information to increase the trust of investors (Haniffa and Cooke, 2002; Li, Pike and Haniffa, 2008). Newly joined companies do not yet have experience in terms of disclosure so often assume that they will get competitive losses if they disclose certain information such as research costs and will spend large disclosure costs (Owusu-Ansah, 1998; Hossain and Hammami, 2009; Popova *et al.*, 2013).

H9. Company age has a positive effect on the mandatory disclosure of the company

3 RESEARCH METHODE

3.1 Regression Models

$$Mand\_Disc = \beta_0+\beta_1X_1+\beta_2X_2+\beta_3X_3+\beta_4X_4 +\beta_5X_5+\beta_6X_6+\beta_7X_7+\beta_8X_8 +\beta_9X_9+e_1 \quad (1)$$

Mand_Disc is level of mandatory disclosure scaled by index of mandatory disclosure. In order to measure the level of mandatory disclosure, a non-weighted approach is used, which is an approach that assumes that each item is equally important. A score of one is given to items that are disclosed in annual report and zero scores for undisclosed items. Non-weighted index is the ratio of the number of items with a score of one divided by total disclosure or total disclosure (TD). This study uses a mandatory disclosure index with a non-weighted approach follows OJK Circular Letter No. 30 / SEOJK.04 / 2016 concerning of 244 items of disclosure. X_1 is the company size as measured by the stock market capitalization value. X_2 is leverage measured by a debt to equity ratio. X3 is complexity as measured by the number of branches owned by the company. X_4 is assets in place as measured by the ratio of a company's fixed assets to total assets. X_5 is managerial ownership as measured by the ratio of managerial ownership to total shares. X_6 is foreign ownership as measured by the ratio of foreign ownership to total shares. X_7 is profitability as measured by the return on investment ratio. X_8 is type of industry dummy variables. Industrial variables are measured with a value of 1 and 0 where the financial sector is given a value of 1 and non-financial sector is given a zero value. X9 is company age measured by the age of the company listed on the stock exchange.

3.2 Sample Selection

The population of this research company listed on the Indonesia Stock Exchange in 2017 was 559 companies (IDX, 2017). These companies are divided into sectoral classification systems called Jakarta Stock Industrial Classification (JASICA). The sample is determined by proportionate stratified random sampling technique which is a sampling technique where the population elements that have a group are selected proportionally depending on the amount in the group. This technique is used to obtain samples that represent proportionally all sector categories. Based on the sampling technique, the minimum sample is 229 samples for a 5% precision level.

4 RESULTS AND DISCUSSION

4.1 Descriptive Statistics

A number of 229 annual reports from the IDX website have been collected. A number of reports that cannot be used due to file damage. A number of annual reports also have very poor display quality so they cannot be used. Final results obtained 207 reports that can be used. Table 1 presents descriptive results of a statistic. The table presents the lowest, highest and average values for each variable. Mandatory corporate disclosure shows an average value of 0.67 or 67%.

Table 1 : Descriptive Statistics

	N	Min	Max	Mean	Std. Dev
Y(Mand_Disc)	207	.41	.94	.6685	.12051
X1 (Comp_Size)	207	.01	550.18	18.2374	62.94026
X2 (*Leverage*)	207	.01	82.38	2.2182	6.05353
X3 (Assets_IP)	207	1.00	213.00	8.9179	17.93159
X4 (Complex)	207	.00	.94	.2700	.24527
X5 (Mng_Own)	207	.00	.95	.0629	.15470
X6 (For_Own)	207	.00	.99	.3041	.31615
X7 (Profit)	207	-2.00	.85	.0658	.23470
X8 (Ind_Type)	207	.00	1.00	.1836	.38808
X9 (Comp_Age)	207	1	38	17.45	9.429
Valid N (listwise)	207				

The average value of the variables x1 and x3 is much smaller than the standard deviation. This condition shows that there is a very large difference in the value of the sample used. This is because the author takes a random sample and does not differentiate the size of the company from the value of the market capitalization of its shares and assets. As a result, the sample is very diverse from small category companies to very large companies.

4.2 Regression Results

Regression analysis results can be seen in Table 2 below:

Table 2: Regression Results

Dependent Variable: Mand_Disc
Method: Least Squares
Date: 08/08/18 Time: 15:20
Sample: 1 207
Included observations: 207

Var	Coefficient	Std. Error	t-Statistic	Prob.
C	0.651453	0.022287	29.23044	0.0000
X1	0.000149	0.000137	1.088027	0.2779
X2	0.001293	0.001330	0.971883	0.3323
X3	0.000759	0.000477	1.589618	0.1135
X4	-0.002351	0.037167	-0.063248	0.9496
X5	-0.092826	0.052488	-1.768543	0.0785
X6	0.045446	0.027434	1.656555	0.0992
X7	0.108052	0.035051	3.082687	0.0023
X8	0.061668	0.023594	2.613742	0.0096
X9	-0.001227	0.000903	-1.358235	0.1759

R-squared	0.159428	Mean dependent var	0.668454
Adjusted R-squared	0.121026	S.D. dependent var	0.120515
S.E. of regression	0.112987	Akaike info criterion	-1.475986
Sum squared resid	2.514911	Schwarz criterion	-1.314985
Log likelihood	162.7645	Hannan-Quinn criter.	-1.410878
F-statistic	4.151585	Durbin-Watson stat	1.809766
Prob(F-statistic)	0.000064		

From the results of calculations in Table 2. It can be seen that the simultaneous testing obtained the value of prob. F-statistic of 0.0000 smaller than alpha 0.05. Thus the estimated regression model is feasible to explain the effect of independent variables on the dependent variable. This result also shows that overall all independent variables affect the mandatory disclosure of the company. In partial testing the independent variable on the dependent variable shows that partially only variables x5, x6, x7 and x8 have a significant influence on the variables of mandatory disclosure because of the prob value. <alpha 0.05 for the level of significance of 5% and 10%.

This multiple regression equation has through the normality test, linearity test, multicollinearity test, heteroscedasticity test and autocorrelation test. The results can be seen in the following table and figure.

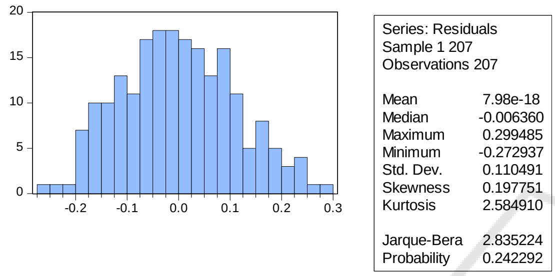

Figure 1 : Normality Test

The normality test is conducted using Jarque-Bera Test. The results show the Jarque-Bera probability value is greater than alpha 0.05. Therefore, it can be concluded that residuals are normally distributed.

Table 3 : Linearity Test

Ramsey RESET Test			
Equation: UNTITLED			
Omitted Variables: Squares of fitted values			
	Value	df	Probability
t-statistic	0.940099	196	0.3483
F-statistic	0.883786	(1, 196)	0.3483
Likelihood ratio	0.931288	1	0.3345

Based on the results of calculations in Table 3. Prob.F calculated value is 0.3483 greater than alpha level 0.05 so that this regression model meets the assumption of linearity.

Table 4: Multicollinearity Test

Variance Inflation Factors			
Date: 08/08/18 Time: 15:22			
Sample: 1 207			
Included observations: 207			
	Coefficient	Uncentered	Centered
Variable	Variance	VIF	VIF
C	0.000497	8.053951	NA
X1	1.86E-08	1.292100	1.191571
X2	1.77E-06	1.187653	1.046464
X3	2.28E-07	1.477046	1.183023
X4	0.001381	2.974467	1.341014
X5	0.002755	1.240232	1.063583
X6	0.000753	2.341693	1.213949
X7	0.001229	1.178244	1.091935
X8	0.000557	1.700600	1.380197
X9	8.16E-07	5.203239	1.171080

Based on the calculation results in Table 4. The VIF values of all independent variables are smaller than 10 so it can be concluded that there is no multicollinearity.

Table 5 : Heteroskedasticity Test

Heteroskedasticity Test: Breusch-Pagan-Godfrey			
F-statistic	1.093185	Prob. F(9,197)	0.3694
Obs* R-squared	9.846337	Prob. Chi-Square(9)	0.3631
Scaled explained SS	7.067097	Prob. Chi-Square(9)	0.6301

Based on the results of calculations in Table 5. Prob.F calculated value is 0.3694 greater than alpha 0.05 so that there is no heteroscedasticity.

Table 6 : Autocorrelation Test

Breusch-Godfrey Serial Correlation LM Test:

F-statistic	2.363993	Prob. F(2,195)	0.0967
Obs*R-squared	4.900129	Prob. Chi-Square(2)	0.0863

Based on the results of calculations in Table 6. Prob.F value is 0.0967 greater than alpha 0.05 so it can be concluded that there is no autocorrelation problem. The results show that the regression model tested has fulfilled all OLS assumptions so that the resulting estimator has properties that are unbiased, linear and have a minimum variance.

The results of multiple regression analysis show that manager ownership negatively affects mandatory disclosure with probable values. 0.078 And the coefficient shows a negative value of -0.0928 at the level of significance of 10%. This result is consistent with the initial hypothesis that high managerial ownership of the company will strengthen management positions and reduce pressure to make high disclosures (Ajinkya, Bhojraj and Sengupta, 2005; Donnelly and Mulcahy, 2008). These results contradict the results found by Owusu-Ansah (1998) which show that the management structure of a company (corporate insider) has a positive and significant relationship to the practice of mandatory disclosure of companies.

Furthermore, the results of multiple regression analysis also show that foreign ownership has a positive effect on mandatory disclosure with probable values. 0.099 and the coefficient shows a positive value of 0.045. It also shows that foreign capital will increase managers' motivation to make extensive disclosures because foreign investors are more interested in having companies that can show potential future results (Bova and Pereira, 2012). These results also show that the Company anticipates investors' needs through increasing their mandatory disclosures.

Furthermore, profitability proved to have a positive influence on mandatory disclosure with probable value. 0.0023 and a coefficient that shows a positive value of 0.108. This result supports signal theory and several previous studies which say that companies with high profits have an incentive to distinguish themselves from companies that are less profitable (Meek, Roberts and Gray, 1995). Companies with good performance are more likely to disclose mandatory about potential income in the future to attract investors (Haniffa and Cooke, 2002; Lokman, Mula and Cotter, 2011; Agyei-mensah, 2012; Alanezi *et al.*, 2012; Balakrishnan, Li and Yang, 2014). It also supports agency theory which says that management with good financial performance seeks to increase compensation for itself by increasing disclosure. Increased disclosure will increase corporate value which is the basis of management compensation and determines the value of human capital in a competitive labor market (Barako, 2007; Rouf, 2011).

Then the industry type is proven to influence the mandatory disclosure with prob value. 0.0096 and the coefficient shows a positive value of 0.0616. This variable uses a dummy value to distinguish between the non-financial sector and the financial sector. Probability value. 0.0096 shows this variable is significant at the level of significance of 5%. In this study the financial sector was given a value of 1 while the non-financial sector was given a value of 0. Regression coefficients with positive values indicate that the financial sector tends to have mandatory disclosure better than the non-financial sector. These results support the results of previous studies which say that industries that are politically more sensitive than others such as banks have a greater level of disclosure (Craig and Diga, 1998). In addition in some industries such as utilities and financial services, disclosure is also more comprehensive (Boesso and Kumar, 2007). Besides this result also supports signal theory which says that companies try to convey information as an easy way to distinguish themselves from other companies in a variety of markets related to the characteristics of the company (Healy and Palepu, 2001; Meng, Zeng and Tam, 2013; Birjandi, Hakemi and Sadeghi, 2015).

5 CONCLUSION

The results of this study indicate that overall the variables of the company's characteristics affect the mandatory disclosure of the company. Managerial ownership has a negative effect on mandatory disclosure, which means that higher managerial ownership will eliminate dependence on disclosure, thereby reducing the level of mandatory disclosure. Furthermore, foreign ownership and profitability have a positive effect on mandatory disclosure, which means that the higher the level of foreign ownership and the level of profitability, the higher the level of mandatory disclosure of the company. Then the type of financial sector industry makes mandatory disclosure higher than the non-financial sector.

6 LIMITATION AND FUTURE RESEARCH

The author realizes that there are many limitations in this study, including the use of cross section data for only one year of the annual report. Besides that for mandatory disclosure authors have not specifically separated the sub-sections / sub-themes. For future research the authors propose that research can be extended to the sub-section of the themes of mandatory disclosure and use of panel data for several years of annual reports so that differences and changes can be described.

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