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A Study of the relationship between Mandatory Disclosure and Voluntary Disclosure in the Financial Statements Disclosure Practice in Indonesia

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Abstract

Disclosure of financial statements is essential for issuers' activities in the capital market as transparency and public accountability. Disclosure may be mandatory and voluntary. Compulsory disclosure is the disclosure that a company undertakes as required by a particular authority whereas voluntary disclosure is a disclosure of a company's initiative. This study is about the relationship between mandatory disclosure and voluntary disclosure made by companies, especially in manufacturing companies in Indonesia Stock Exchange. This research is conducted by descriptive method. Researchers performs data collection, data calculation, tabulation and sorting of data on specified disclosure points. Using the unbalanced disclosure index assuming that each item is equally important the researcher calculates the compulsory and voluntary disclosure ratio index based on the developed items of 244 items for mandatory disclosure and 70 items of voluntary disclosure. The results of this study indicate that the level of mandatory disclosure after the adoption of new OJK decreases but the number of items disclosed increased. The level of voluntary disclosure increases from the results of previous studies. Voluntary disclosure rates are higher for items related to mandatory corporate disclosure. Companies tend to make mandatory disclosures more than their voluntary disclosures.

Keywords: Disclosure, Mandatory, Voluntary, Relationship

1. Introduction

The development of capital markets is a major factor that encourages the development of corporate financial disclosure practices. This practice of disclosure is important as a form of transparency and public accountability of companies in the capital market to investors and potential investors. Disclosure of financial statements also reflects a form of protection for investors and potential investors by companies in maintaining the value of the company as they expect. In addition, disclosure also describes the governance of a company (Shehata, 2014). Some scandals involving companies are caused by lack of disclosure while disclosure of information is used as a basis for decision making (Spira & Page, 2010)

The practice of disclosure is closely linked to the development of financial reporting standards, funding sources, legal systems, taxation systems, inter-state politics, inflation, economic development, educational level and cultural factors (Choi & Meek, 2005). Standard disclosure of financial statements is generally the same standard as financial reporting or accounting. To date, accounting standards have undergone many changes related to globalization issues and the complexity of corporate activities. In a global perspective, reporting and report disclosure are required for uniforms to facilitate stakeholders in assessing and comparing the performance of firms in the capital market. In relation to the complexity of multinational companies a uniform standard can facilitate the process of consolidating financial statements between the financial statements of major companies and subsidiaries coming from different countries.

Disclosure is divided into 2 groups: mandatory disclosure and voluntary disclosure. Mandatory disclosure is required by certain parties such as capital market supervisors while voluntary disclosure is not required by any party. The mandatory disclosure rate is usually indicated by the level of compliance with the requested conditions (Devalle & Rizzato, 2013). Conversely voluntary disclosure is closely related to the manager's motivation to disclose such additional information which is usually associated with the incentive to be received. In addition, the benefits of information for users will be perceived differently e.g. investors prefer information about profit and loss while creditors are more interested in the balance and cash flow (Hasan & Hosain, 2015).

The practice of disclosure in Indonesia has been extensively researched and the results show that both voluntary and compulsory disclosures have been performed fairly well by the company. The mandatory disclosure rate of manufacturing and service firms listed on the Indonesian stock exchange in 2009 to 2010 ranges from 70 to 75% (Utami et al., 2012; Prawinandi, Suhardjanto & Triatmoko, 2012; Devi & Suardana, 2014). Meanwhile, the level of voluntary disclosure is in the range of 30% to 60% (Permanasari, 2012; Nuryaman, 2009; Hardiningsih, 2008). However, there have not been many studies linking these mandatory and voluntary disclosures. This article is a study of the relationship between mandatory disclosure and voluntary disclosure made by companies, especially manufacturing companies in Indonesia Stock Exchange

2. The Material and Method/Algorithm

2.1 Method of Collecting Data

This study is a descriptive study with survey method on manufacturing companies listed on the Indonesia Stock Exchange. This study uses secondary data in the form of financial statements of manufacturing companies listed on the stock exchange and related journals. Secondary data is data published or used by non-processing organizations (Siregar, 2010). This research data type is classified as cross-section data.

2.2 Population And Sample.

Research population is manufacturing company listed on BEI in 2016. Sampling in this research using non probability method with Purposive Random Sampling. Purposive Random Sampling is done by specifying the respondent or company based on the assumption that the company meets the specified characteristic

2.3 Analysis Method.

In order to analyze the data, the researchers use descriptive statistics. Through descriptive statistical analysis, researchers convert raw data into a form that can provide information to describe a set of factors in a state that includes mean, variant, standard deviation, mode, median, range, etc.

2.4 Operational Definition.

To obtain an overview of the current disclosure the researcher performs data collection, data calculation, tabulation and sorting of data on specified disclosure points. For mandatory disclosure the researcher uses an unbalanced disclosure index that is a calculation based on the assumption that each item is equally important (Rouf, 2011). A score of one is given on the item disclosed and the score is zero for the undisclosed item while the disclosure index as the ratio of the item disclosed to total disclosure (TD). Number of items that must be disclosed according to the latest OJK regulation based on OJK Circular Letter No.30 / SEOJK.04 / 2016 is 244 points. For voluntary disclosure the researcher uses the disclosure point that has been proposed by Botosan (1997) and developed by Elsayed & Hoque (2010) so that the total item of the total expression becomes 70 items. The method of calculating voluntary disclosure uses the same measurement index as mandatory disclosure but differs in the number and type of disclosure items.

3. Results and Discussions

Researchers managed to collect disclosure data on 30 manufacturing companies active on the Indonesia Stock Exchange in 2016. The average compulsory disclosure rate is 59.50%. This value is lower than the previous results which reached a level of about 79%. However, based on the total number of items disclosed then 59.50% is reaching the amount of disclosure about 145 items. This indicates that the amount disclosed increases in accordance with the item increase in the latest Financial Services Authority (OJK) rules. Since the change of the capital market regulatory function of the Capital Market Managing Agency (BAPEPAM) to OJK, there have been many changes regarding the provisions applied to the issuer (the company). The more disclosure points demanded, the more disclosure the company makes even though the disclosure ratio does not increase. The results are described in detail through the disclosure level based on the disclosure group. There are 10 groups in the company's mandatory disclosure. The table below explains the level of mandatory disclosure based on its disclosure group.

Table 1. Description of Mandatory Disclosure by Group

Group	Description	Average
1	Important Financial Data Overview	92.16%
2	Stock Information	45.00%
3	Report of Board of Directors	86.67%
4	Board of Commissioners Report	80.00%
5	Issuer or Public Company Profile	74.13%
6	Management Analysis and Discussion	46.43%
7	Issuers or Public Companies Governance	50.71%
8	Social and Environmental	43.65%

9	Responsibility of Public Companies	
10	Annual Financial Reports Audited	96.67%
	Statement of Members of the Board	93.33%
	of Directors and Members of the	
	Board of Commissioners on	
	Responsibility for Annual Report	
	Average	71.05%

Source: Data Processed

Furthermore, for the voluntary disclosure of the company the number of items has not changed much. This study used 70 items of disclosure whereas in the previous research there were about 60 to 80 modifications with the provisions of baepam. The rate of voluntary disclosure indicates an average of 52.43% increase compared to previous results which only reached a level of about 30%. Then the total number of items disclosed about 37 items. Here is an overview of voluntary disclosures made by manufacturing sector companies in the BEI in 2016 based on disclosure group.

Table 2. Description of voluntary disclosure by group

Group	Description	Average
1	Background Information	83.33%
2	Company History	74.67%
3	Financial and non-financial statistics	62.17%
4	Future information	28.33%
5	Results of management discussion and analysis	10.56%
6	Additional information	57.37%
	Average	52.74%

Source: Data Processed

Then, researchers examined the relationship of mandatory disclosure and voluntary disclosure. The results show that the items of disclosure in these six groups of voluntary disclosure have some similarities to the items on mandatory disclosure. For example items in the first group on background information and the third group on financial and non financial statistics are mostly about company profiles so that they have similarities with the fifth group on mandatory disclosure. Similarly, the second group of company history is almost entirely part of the first group information on the mandatory disclosure of the Important Financial Data Overview. On the other hand the items of the fourth group of voluntary disclosures concerning the futures information are very little related to the mandatory disclosure information especially regarding sales forecasts, cash flow forecasts, profit estimates and development estimates. Similarly, the fifth group disclosure items are about the management of discussion and analysis that have the same name with the sixth group on mandatory disclosure but different points of view. In mandatory disclosure, management discussion and analysis emphasizes on achievement of performance whereas in voluntary disclosure emphasizes the changes that occur. While the items of disclosure in the last group that is about additional information are largely unsolicited on mandatory disclosure.

In this final stage the researcher discusses the level of voluntary disclosure related to the similarities and differences between compulsory and voluntary disclosure items. The level of voluntary disclosure achieves high scores on items closely related to the mandatory disclosure of the first, second and third groups. While in the fourth group, the fifth and sixth which are not closely related or not related to the mandatory disclosure indicate a low disclosure rate. This indicates that the average firm tends to make

mandatory disclosures by the authorities and performs voluntary disclosures with the consideration that the company gets incentives from the disclosure. This supports the statement of Levy et al. (2006) that in large markets where investors are clearly well known the value of the firm is not much affected by the company's financial disclosures so that the company does not have the incentive to disclose information voluntarily. Thus disclosure regulations are required to secure investor rights.

4. Conclusions and Recommendations

Based on the above description, the authors conclude that the standard of disclosure must change following the regulatory changes that govern the issuer in the stock exchange. The level of mandatory disclosure after the adoption of new OJK regulations decreased but the number of items disclosed increased. The level of voluntary disclosure increases from the results of previous studies. Voluntary disclosure rates are higher for items related to mandatory corporate disclosure. Companies tend to make mandatory disclosures more than their voluntary disclosures.

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