CORPORATE GOVERNANCE AND STRATEGIC DISCLOSURE PRACTICE: EVIDENCE FROM INDONESIA

[1]Agung Nur Probohudono, [2]Krisnadi Permana, [3]Dian Perwitasari*)

[1,2,3]Fakultas Ekonomi dan Bisnis, Universitas Sebelas Maret, Indonesia.

Email: dianperwitasari285@gmail.com)*

*)Corresponding Author

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This research aims to find out the extent to which corporate governance affects the strategic disclosure level in Indonesian manufacturing companies. This study employs managerial ownership, institutional ownership, foreign ownership, independent commissioner composition, and number of commissioner board meetings as independent variables, and leverage and profitability as control variables. The sample companies in this research consists of the manufacturing ones releasing annual report. The measurement of strategic disclosure level in this research employs Eng and Mak's strategic disclosure index (2003) and integrated into Ho and Taylor's index (2013). The sample of the research consists of 71 Indonesian manufacturing companies. The sampling technique uses purposive sampling one. The result of the research shows that managerial ownership, institutional ownership, and commissioner board composition affects significantly positively the strategic disclosure. The function of the control variable in this study is as the controller of all variables; in the presence of the control variable, the data estimation result shows that leverage and profitability do not affect significantly the strategic disclosure in Indonesian manufacturing companies.

Keywords: Agency theory, corporate governance, manufacturing company, strategic disclosure.

1. INTRODUCTION

In this globalization age, the company deals with many challenges to keep maintaining their position in the market. These challenges include competition intensity, market globalization, and ever-changing economic condition (Ismail and El-Shaib, 2012). The company is required to keep improving its performance to pass through such challenges. One attempts the company takes to improve its performance is to provide information disclosed in an annual report. The company's disclosure and an annual report is very important to the company and security market growth and development (Akhtarudin and Haron, 2010).

Information disclosure in the annual report can be categorized into two: mandatory disclosure and voluntary disclosure. Mandatory disclosure is the minimum disclosure required by the enacted standard accounting, in this case, the regulation issued by Security Market Overseeing Board and Financial Institution (BAPEPAM Head's decree number X.K.6 KEP-431/BL/2012). Meanwhile, voluntary disclosure is the one made voluntarily beyond what demanded by the regulation. Qu et al, (2013) stated that there are 2 (two) types of voluntary disclosures:

1. Strategic information including general information on the company, company strategy, acquisition and liberation, and research and future prospect;
2. Financial information including segmental information, financial review, foreign exchange information, stock price information, and transparency about non-financial information.

Strategic disclosure can be defined as information transparency of a company deciding to share the strategy it is achieving and it will achieve in the future with stakeholders (Santema et al, 2005).

Disclosure is one of the principles of corporate governance. The companies undertaking corporate governance will provide more information in the attempt of reducing information asymmetry. The information provided will focus on the disclosure level; the better the implementation of corporate governance by the company, the more is the information will be disclosed.

Some previous studies on the effect of corporate governance on strategic disclosure found different results. For that reason, there should be a further examination of the strategic disclosure practice and its effect on corporate governance in Indonesian manufacturing companies.

2. LITERATURE REVIEW

There are two theories related to this research: agency and signaling theories. The concept of agency theory is to analogize management as an agent and the company owner or shareholder as principal. Regarding the relationship between both of them, the principal employs an agent to carry out the duty of serving the principal’s interest including delegating the decision-making authority from the principal to the agent (Jensen and Meckling, 1976). Agency theory suggests that when the agent and the principal have different interests, information asymmetry will result (Ho and Taylor, 2013).

Signaling theory explains that the company (manager) has the motivation to disclose financial statement information to external parties (shareholders). The motivation is the presence of information asymmetry between agent and principal (agency conflict). It is because the agent has more information on the company. The limited information the external parties have on the company can lead to poor conditions for the company. Signaling theory, according to Halim (2007: 98), suggests how a company should give a signal to the annual report users.

Managerial Ownership

Managerial ownership is the percentage ownership of common stocks the CEO, the Board of Directors and the stakeholders have (Eng and Mak, 2003). It will lead the managers to get involved in opportunistic behavior. For that reason, the company owner will improve it's overseeing over the managers to mitigate the agency problems (Jensen and Meckling, 1976). However, the overseeing by the company owner can be reduced when the manager can make voluntary disclosure (Eng and Mak, 2003). The higher managerial ownership makes the company motivated to make a voluntary disclosure as the attempt of synchronizing the incentive of the manager and that of shareholders. Akhtarudin and Haron’s (2010) study found that there was a positive relationship between managerial ownership and increased voluntary disclosure. Considering the finding of the research, the first hypothesis formulated as follows:

H1: Managerial ownership affects positively the level of strategic information disclosure.

Institutional Ownership

Institutional ownership is the shareholding owned by institutional investors out of the corresponding company. The institutional investor with a large proportion of company shareholding can urge the manager to make a voluntary disclosure and can compel their investment objective by giving suggestions and recommendations to the managers. The presence of institutional investor ownership in the company may encourage the more optimal and effective overseeing over the management performance. The higher overseeing from outsiders over the management will require the company to make broader disclosure. Ntim et al.'s (2012) study showed that institutional ownership is related positively to the company's voluntary disclosure. Considering the elaboration above, the second hypothesis is formulated as follows:

H2: Institutional ownership affects positively the level of strategic information disclosure.

Foreign Ownership

Foreign ownership is the ownership of common stocks by individual-, enterprise-, government-owned companies and its divisions with foreign status. Foreign investor deals with substantial risks, particularly when it invests in transitory states. Qu et al's (2013) study showed a significant relationship between foreign ownership and voluntary disclosure. Considering the elaboration above, the third hypothesis is formulated as follows:

H3: Foreign ownership affects positively the level of strategic information disclosure.

Composition of Independent Commissioner

Law No. 40 of 2007 about Limited Incorporation in article 120 clause 1 mentions that the company obligatorily has 1 (one) or more independent commissioners. Independent commissioner is expected to put justice into the main principle in considering the interests of the parties likely neglected such as minority shareholders and other stakeholders. The main objective of the independent commissioner is to give the corporate governance protection to the company owners (Probohudono et al., 2012). In this case, the independent commissioner is expected to be impartial to any policies or decisions made by the board of directors. Said et al's (2009) study suggested that an independent commissioner plays an important role in improving the company image and in overseeing to ensure that the company has been managed correctly. For that reason, the fourth hypothesis is formulated as follows:

H4: The number of independent commissioners affects positively the level of strategic information disclosure.

Number of Commissioner Board Meetings

In undertaking its duty, the Board of Commissioner always hold routine meetings to evaluate the policies made by the board of directors, to discuss the problem regarding company direction and strategy, and to deal with the conflict of interest. For that reason, the larger the number of commissioner board meetings held, the better is the performance of the commissioner board in conducting overseeing. Thus, the company's strategic information disclosure is broader as well. It supports the study conducted by Xie et al, (2003) finding that the more frequently the board of commissioner holds meeting, the more effective is the overseeing function, and the broader is the company's disclosure. Based on the elaboration above, the fifth hypothesis can be formulated as follows:

H5: The number of commissioner boards affects positively the level of strategic information disclosure.

3. RESEARCH METHOD

This research employed strategic disclosure indexes from Eng and Mak (2003) and Ho and Taylor (2013). Both indexes were combined and eliminated for the same component so that 30 items of disclosure were obtained. The strategic disclosure was assessed by scoring any item disclosed through an annual report. Strategic disclosure measurement could be conducted by estimating its disclosure index by scoring any item disclosed through the company's annual report, in which an item disclosed would get score 1 and an item undisclosed would get score 0 (zero). Thus, it could be formulated as follows:

$$\textbf{Strategic disclosure: } \frac{\textbf{Number of items disclosed by company}}{\textbf{number of items expected to be disclosed by the company}}$$

The variable used to represent the managerial ownership is the manager's percentage share. Institutional ownership was measured using the institutional investor's percentage share. Foreign ownership was measured by measuring the foreign investor's percentage share. The composition of the independent commissioner was measured using the proportion of independent commissioners compared with the total number of comissioners board. The number of commissioner board meetings was measured from the number of meetings held internally between the members of the commissioner board annually. Then, leverage was measured based on the ratio of total debt to total assets.Profitability was measured based on the ratio of net profit to total assets.

The population used in this study was all manufacturing companies enlisted in the Indonesian Stock Exchange consisting of 137 companies. The sample used in this research consisted of manufacturing companies enlisted in ISE consisting of 71 companies. The sampling method used was purposive sampling one with the following criteria:

1. Manufacturing companies providing an annual report on the Indonesian Stock Exchange in 2013.
2. Companies having complete data related to research variables.

Technique of Data Analysis

1. *Statistic Descriptive*

   Statistic descriptive served to describe data viewed from the mean, standard deviation, variance, maximum, minimum, sum, range, kurtosis, and skewness (Ghozali, 2011) so that it is more understandable to the readers. The data to be studied in this research included strategic disclosure, managerial ownership, institutional ownership, foreign ownership, number of independent commissioners, number of commissioner board meetings, leverage, and profitability.

2. *Classical Assumption Test*

The multiple-linear regression test could be conducted after the model of research has met the conditions or have passed successfully through the classical assumption. The condition to be met was that the data should be distributed normally, not containing multicollinearity, and heteroscedasticity. It was intended to avoid biased estimation recalling that entire data cannot be applied to the multiple regression.

3. *Hypothesis testing*

Hypothesis testing was carried out using multivariate analysis with linear regression. The regression analysis served to find out the effect of interaction between dependent and independent variables (Ghozali, 2009). Considering the framework above, the equation used to test the hypothesis entirely is as follows:

$$\mathbf{STRADIS = \alpha + \beta_1 KEPMAN_{it} + \beta_2 KEPINST_{it} + \beta_3 KEPASI_{it} + \beta_4 KOMIND_{it} + \beta_5 JMLRAP_{it} + \beta_6 LEV_{it} + \beta_7 PROF_{it} + \Sigma_{it}}$$

Notes:

α = Constant

STRADIS = Score of strategic disclosure index

KEPMAN = Management ownership

KEPINST = Institutional ownership

KEPASI = Foreign Ownership

KOMIND = Composition of Independent Commissioner

JMLRAP = Number of Commissioner Board Meeting

LEV = Leverage

PROF = Profitability

i = Companies 1 to i

t = 2013

4. RESULTS AND DISCUSSION

Statistic Descriptive Data Analysis

Table 1

The Result of Statistic Descriptive

Variable	Minimum	Maksimum	Mean	Standar Deviation
STRADIS	0,60	1,00	0,8318	0,11171
KEPMAN	0,00	85,00	7,2835	15,79564
KEPINST	0,00	99,39	52,2954	30,73166
KEPASI	0,00	92,41	27,1910	26,80795
KOMIND	1,00	18,00	5,7606	4,01236
JMLRAP	1,00	4,00	2,2817	0,88128
LEV	0,00	1,00	0,3903	0,23077
PROF	0,00	2,23	0,1980	0,34317

Source: Processed Data

Table 1 presents the statistical descriptive of dependent and independent variables based on 71 companies showing that the strategic disclosure index has a mean of 83.18% with a standard deviation of 0.11171. It means that on average the companies disclose about 83.18% item of the total 30 strategic disclosure items in the annual report.

Classical assumption test

1. *Normality Test*

The normality test aims to study whether or not a confounding variable or residual has a normal distribution in the regression model. From table 2, it can be seen that the result of the Kolmogorov-Smirnov test shows a significance level of 0.817 meaning that it is less than 0.05; therefore it can be stated that the regression model meets the normality assumption.

2. *Multicollinearity test*

Multicollinearity test aimed to find out whether or not there is a correlation between independent variables. Table 3 showed that there was no independent variable with tolerance less than 0.10 meaning that there was no correlation between independent variables. The result of variance inflation factor (VIF) value estimation showed that there was no independent variable with VIF score higher than 10 so that it could be concluded that there was no multicollinearity between variables in the two regression models.

3. Heteroscedasticity Test

A heteroscedasticity test was used to see whether or not there is a variance difference in a regression model. This research used scatter plot chart analysis and glejser test. In table 4 of the glejser test, it could be seen that the significance level is higher than 5%. It confirmed the absence of heteroscedasticity problem.

Hypothesis Testing

1. Simultaneous Significance Test (F-statistic Test)

From the ANOVA test or F test, it could be found the F statistic value of 4.405 with a probability of 0.000 (p-value = 0.050). The significance value obtained in F statistic was lower than 0.050; therefore it can be said that independent variables consisting of managerial ownership, institutional ownership, foreign ownership, independent commissioner composition, commissioner board meeting number, and control variables consisting of leverage and profitability affected significantly the strategic disclosure.

2. Coefficient of Determinacy Test (R^2)

Table 7 shows that the coefficient of determinacy indicates the R square value of 0.329 and the adjusted R^2 value of 0.254. It means that 25.4% of strategic information disclosure index variations can be explained significantly by managerial ownership, institutional ownership, foreign ownership, independent commissioner composition, number of commissioner board meeting, leverage, and profitability.

3. Individual Parametric Significance Test (t-statistic test)

The t-statistic test showed the extent to which the effect of an independent variable partially explained the dependent variable. To interpret the coefficient the independent variable, unstandardized coefficient or standardized coefficient could be employed.

Table 2

The Result of t-statistic test

Variable	Coefficient Regression	t	P
KEPMAN	0,003	3,277	0,002*
KEPINST	0,001	2,018	0,048*
KEPASI	0,001	0,838	0,405
KOMIND	0,002	0,620	0,537
JMLRAP	0,032	2,201	0,031*
LEV	0,083	1,630	0,108
PROF	-0,017	-0,480	0,633

Source: Processed Data

From table 2, it could be seen that the three independent variables: managerial ownership, institutional ownership, and independent commissioner composition, affected significantly the strategic information disclosure with significance levels of 0.002, 0.048, and 0.031, respectively. Considering the table above, the multiple linear regression equation could be written as follows:

$$\mathbf{STRADIS_{it} = 0.611 + 0.003KEPMAN + 0.001KEPINST_{it} + 0.001KEPASI + 0.002KOMIND + 0.032JMLRAP + 0.083LEV + (0.017)\ PROF}$$

Discussion

The first hypothesis testing states that managerial ownership affects positively the strategic information disclosure. The result of the research shows a p-value of 0.002 and a coefficient of 0.003 so that this study supports the first hypothesis proposed. It is in line with Akhtarudin and Haron (2010) proving that there was a positive significant effect of managerial ownership on strategic information disclosure.

The result of the second hypothesis testing shows that institutional ownership affects positively the strategic information disclosure. The result of current research shows a p-value of 0.048 with a coefficient of 0.01 so that this study supports the second hypothesis proposed. It is in line with Ntim et al (2012) proving that there was a positive significant effect of institutional ownership on strategic information disclosure.

The result of the third hypothesis testing shows that the third hypothesis is not supported. It can be seen from the p-value obtained of 0.838 with a coefficient value of

0.001. It is in line with Said et al (2009) finding that foreign ownership is not related to voluntary disclosure.

The fourth hypothesis testing shows that the composition of the independent commissioner has p-value 0.031 and a positive coefficient of 0.032 so that it can be concluded that the composition of the independent commissioner affects significantly the strategic disclosure. It is in line with Eng and Mak (2003) indicating that the composition of the independent commissioner is related positively to the level of voluntary disclosure.

The fifth hypothesis testing states that the number of commissioner board meetings is not related to strategic disclosure, as indicated with a p-value of 0.537 and a coefficient of 0.002. Thus, it can be concluded that the fifth hypothesis is not supported. It is possible because the meetings held by the board of commissioners are less effective and dominant voice of commissioner board members that transcend their personal or group interest and override the company interest.

Leverage as a control variable has a p-value of 0.108 and a coefficient of 0.083; then it can be concluded that the control variable does not affect strategic disclosure significantly. The next testing on the control variable shows that profitability has a p-value of 0.633 and a negative coefficient of 0.017; thus it can be concluded that profitability does not affect significantly the strategic disclosure in Indonesian manufacturing companies.

5. CONCLUSION

This research aimed to find out the extent to which corporate governance affects the strategic disclosure level in Indonesian manufacturing companies. The research showed that managerial ownership, institutional ownership, and commissioner board composition affected significantly positively the strategic disclosure. The function of the control variable in this study was as the controller of all variables; in the presence of the control variable, the data estimation result showed that leverage and profitability did not affect significantly the strategic disclosure in Indonesian manufacturing companies.

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