Company Disclosure In Indonesia: Corporate Governance Practice, Ownership Structure, Competition And Total Assets

Cynthia Afriani Utama*

Abstract

The purpose of this study is to investigate whether the extent of company disclosure in Indonesia is affected by external factors in addition to internal factors. Many previous studies relating to disclosure conducted in Indonesia only focused on the internal factors, e.g. corporate governance, ownership structure (blockholder) and total assets. Further, I address the possibility of non-linear relationship between ownership structure on company disclosure and also the impact of competition as an external factor to company disclosure level. This study employs Botosan Index and Herfindahl Index (HI) as a proxy for company disclosure and competition. The result shows that corporate governance practice, competition, and size have a positive influence on company disclosure leves.. When blockholder ownership is divided into three groups: low ownership (less than or equal 20%), medium ownership (between 20.1% and 50%, and high ownership (greater than 50%), I find that companies with medium blockholder ownership have a lower disclosure level than low ownership, while companies with high ownership have a higher disclosure level. Therefore, the existence of blockholder ownership ranging between 20.1% until 50% tends to yield the alignment effect whereas blockholder ownership greater than 50% tends to yield the entrenchment effect. Finally, the result also shows that leverage does not significantly impact on company disclosure.

Keywords: Corporate Governance, Competition, Company Disclosure, Ownership structure

JEL Classification: D82, G34, M41

* Corresponding Author. Cynthia A. Utama is a Senior Lecturer at Faculty of Economics, University of Indonesia, Kampus UI Depok, Indonesia, email: cynthiautama@yahoo.com; cynthia.afriani@ui.ac.id.

1. Background

The separation of ownership and control of resources in a corporation raises an agency problem between the agent who controls the resources (e.g., managers) and the principal who owns the resources (e.g., dispersed shareholders). Managers have incentives to hide some information to the principal and divert the company assets to maximize their utility (Jensen and Meckling, 1976). To reduce this asymmetric information between management and shareholders, the company has to increase its disclosure (Lang and Lundholm, 1993). Disclosure can be provided through mandatory disclosure (i.e., required by regulation) and voluntary disclosure (i.e., both financial and non-financial information that are not required by regulation). The security regulation and law enforcement will cause higher mandatory disclosure requirement and consequently decrease the cost of equity (Hail and Leuz, 2006). Omar and Simon (2011) state that the voluntary disclosure can be explained with several hindsights: 1) *agency problem*, as explained earlier; 2) *market signalling*, i.e., the company provides additional information in the market to differentiate itself from other underperforming competitors; 3) *capital need*, i.e., if a company needs external financing through capital markets then it provides more voluntary disclosure to reduce the cost of capital.

In Indonesia, the capital market regulation requires listed companies to comply with disclosure requirements as set forth in the Company Law and the Capital Market Law. Bapepam-LK as the capital markets and financial institution oversight body requires listed companies to submit timely periodical reports and to publicly announce such reports. The level of compliance of listed companies is relatively high because Bapepam-LK and the Indonesia Stock Exchange enforce the regulation through administration penalties and other means (Daniel, 2003).

Previous research in Asia shows that better corporate governance (henceforth, CG) practice increases a company's voluntary disclosure (Ho and Wong, 2001; Eng and Mak, 2003; Li and Qi, 2008; Yuen, Liu, Zhang, and Lu, 2009). Thus, good CG practices should mitigate the agency problem in companies.[1] For example, the result of prior research shows that attributes of CG such as audit committees tend to increase company disclosure (Ho and Wong, 2001; Yuen, et al., 2009)

[1] It should be noted that the agency problem in East Asia is different from Anglo-Saxon countries; while most agency problems in East Asia are characterised by expropriation of majority shareholders to minority shareholders, in Anglo-Saxon countries it is between managers and shareholders.

while the percentage of family members on the board is negatively related to the extent of voluntary disclosure (Ho and Wong, 2001).

One measure of CG practices of publicly listed Indonesian companies is provided by the Indonesian Institute for Corporate Directorship (IICD). The measure is based on OECD principles of CG. As shown in Table 1, the overall mean CG score of public-listed companies in Indonesia in the year 2006 is 61.26%. This result shows that the implementation of CG practices is only to comply with the local regulation. Thus, IICD (2007) concludes that the implementation of good CG practices in Indonesia needs to be improved in accordance with international standards. On a positive note, the study shows an increasing score of CG practices compared to year 2005 (see Table 2).

Table 1: Corporate Governance Performance by Individual OECD Principles

OECD Principles	Mean Score (%)
Rights of Shareholders	51.23
Equitable Treatment of Shareholders	83.02
Role of Stakeholders	58.76
Disclosure and Transparency	66.64
Responsibilities of the Board	52.36
Overall Mean Score	61.26

Source: IICD (2007)

Table 2: Performance Comparison by the same subject companies

Year of Study	Mean Score of Corporate Governance Performance (%)		
	Overall	Banks	SOEs
	N=60	N=9	N=12
2005	69.50	78.00	76.51
2004	67.29	74.91	76.38

Source: IICD (2007)

This result is consistent with the result of CG Watch 2010 (i.e. survey of CG practice conducted by Credit Lyonnais Securities Asia (CLSA) in collaboration with the Asian Corporate Governance Association (ACGA) showing that the Indonesian CG practice has improved three points as compared to 2007 (from 37% at 2007 to 40% at 2010). Further, Indonesia's ranking is slightly improved from last place to move ahead from the Philippines.

Lou, Courtenay, and Hossain (2006) assert that the abusive conduct of the manager through corporate disclosure can be alleviated

by the existence of large blocks of shareholders (blockholders). When the blockholders have high cash flow at stake in a company, they tend to acquire the company information accurately. This argument is also corroborated by Healy, Hutton and Palepu, 1999; Mitchell, Chia and Loh, 1995; Aitken, Hooper and Pickering, 1997; Jiambalvo, Rajgopal, and Venkatachalam, 2002. But Lou et al. (2006) note that the linear relationships between large blocks of shareholders (blockholders) and company disclosure are generally applied to companies characterised by diffused ownership and may not occur in emerging markets characterised by concentrated ownership. Because previous research shows that the concentrated ownership on one side could reduce the existence of agency problems between managers and shareholders, on the other side it could raise another agency problem, i.e. between majority shareholders and minority shareholders. Therefore, it is an empirical issue to investigate the role of blockholders in reducing the asymmetric information between majority shareholders and minority shareholders through company disclosure. Chau and Gray (2010) find that the financial disclosure increases when the majority shareholders tend to pursue their own private benefits (*entrenchment effect*) because the financial disclosure decreases the asymmetric information between majority shareholders and minority shareholders. Conversely, if the interests of majority shareholders align with the minority shareholders, then the need of financial disclosure decreases (*alignment effect*).

In Indonesia, the extant studies that investigate the influence of ownership structure on company disclosure are relatively rare. Several previous studies show the influence of ownership structure on: 1) company performance (Ahmad, Rusmin, Neil, Tower, 2009), 2) CG practice (proxied by percentage of independent board or commissioners) (Ahmad, 2008), 3) stock market reaction (Utama and Utama, 2009); 4) type of earnings management (Siregar and Utama, 2008). Their empirical results are: 1) majority shareholders tend to cause the "entrenchment effect' through unfair profit sharing. The result shows 1) company performance proxied by return on assets of family-companies (1.56%) is much lower than return on assets of non-family companies (7.37%); 2) the existence of majority shareholders tend to increase(albeit weakly) the proportion of independent commissioners while companies with family as controlling shareholders tend to have a lower percentage of independent commissioners (Ahmad, 2008); 3) stock market reaction from companies in group affiliation is lower than for those in non-group affiliation. Thus, group affiliation tends to foster expropriation because Indonesia still has a lack of supervision and has ineffective law enforcement (Utama and Utama, 2009); and 4) family-controlled companies with no business groups have a lower motivation to

expropriate minority shareholders and as a consequence, the earnings management in these companies are relatively more efficient (Siregar and Utama, 2008).

Other studies state that the extent of company disclosure is affected by their competitive position in industry. These studies find that a company tends to be reluctant to disclose information if this conduct jeopardizes their competitive position in the industry (Darrough and Stoughton, 1990; Dye, 2001; and Verrecchia, 2001). Further, Piotroski (1999) in Healy and Palepu (2001) finds that companies with decreasing profitability and which experience less variance in profitability across their industry segment tend to increase their disclosure.

Wang, Sewon, and Claiborne (2008) mention that company size has a positive impact on voluntary disclosure in several countries, such as US (Firth, 1979), Swedish (Cooke, 1989), Malaysia (Hossain, Tan, and Adams, 1994), and Japan (Cooke, 1992). Wang et al. (2008) also find that the extent of voluntary disclosure in Chinese companies is positively affected by company size because large companies are closely supervised by shareholders and can bear the extra cost of higher disclosure.

Previous studies generally focus on examining the influence of ownership structure to firm value or firm performance (Morck, Shleiver, and Vishny, 1988; Claessens, Fan, and Lang, 2002a; Claessens, Djankov, Fan, and Lang, 2002b; Thomsen, Pedersen, and Kvist, 2006), but empirical studies that investigate the influence of ownership structure to company disclosure in emerging markets are relatively rare (Ho and Wong, 2001; Eng and Mak, 2003; Li and Qi, 2008; Yuen, et al., 2009), especially in Indonesia. Furthermore, new empirical study that investigates the influence of ownership structure to company disclosure with considering the possibility of non-linear relationship between ownership structure on company disclosure is just emerging (Chau and Gray, 2010). In addition, previous studies generally employ CG attributes like board structure, ownership structure, and audit commitees to investigate their impact on voluntary disclosure. Meanwhile, I use a comprehensive measurement of CG to investigate its impact on company voluntary disclosure. Thus, I contribute to extant CG research by highlighting the influence of ownership structure including the possibility of non-linear relationship and an external factor i.e., level of competition on company disclosure.

I posit that practice of CG, total asset and ownership structure as internal factors and competition as an external factor have a positive influence on company disclosure level. But given that listed companies in Indonesia are heavily concentrated at some level of ownership, the existence of blockholder decreases the company disclosure caused by entrenchment effect. Therefore, the objective of this study is to

investigate the influence of practice of CG, blockholders, total assets and levels of competition on disclosure levels of public listed companies at the Indonesia Stock Exchange. This study is an extension of Utama and Sumantoro (2010) who examine the influence of internal factors (i.e., blockholders and total asset), and competition as an external factor on company disclosure. The result shows that total asset, blockholder and competition affect company disclosure positively. Their study however, does not consider: 1) the impact of CG practices on company disclosure, and 2) the non-linear relationship between ownership structure and company disclosure.

The remainder of this paper is organised as follows. The second section discusses the literature and hypotheses development. The third section describes research methodology meanwhile the fourth section explains the results. The final section discusses the implications and concludes.

2. Literature Review and Hypotheses Development

Prior studies show that the level of voluntary disclosure is positively associated with CG.[2] Ho and Wong (2001) show that CG attributes like the existence of audit committees are significantly positive related to company voluntary disclosure, while the ownership structure shown by percentage of family members on the board is negatively related to the company voluntary disclosure. Furthermore, Eng and Mak (2003) find that better CG practice which is shown by lower managerial ownership and significant government ownership increase the company voluntary disclosure. Chen and Jaggi (2000), and Eng and Mak (2003) also find that a higher proportion of outside directors to the number of directors on the board encourages companies to increase the level of voluntary disclosure. Therefore, the existence of outside directors increases the independence of the board in exerting their supervision over the manager because they are less aligned to management. Meanwhile,

[2] According to encyclopedia of corporate governance (http://e.viaminvest.com/WhatIsGorpGov.asp, 2011) there are several definitions of corporate governance, e.g..: 1) corporate governance is the system by which business corporations are directed and controlled. The corporate governance specifies the distribution of rights and responsibilities among different participants in the corporation, such as, the board managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs. By doing this, it also provides the structure through which company objectives are set, and the means of attaining those objectives and monitoring performance; 2) corporate governance deals with the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment (Shleifer and Vishny, 1997).

instead of using the CG attributes, Premuroso and Bhattacharya (2008) find that good corporate governance practice, shown by 1) highest score of Gov-Score, i.e. a broad summary measure of both of internal and external firm corporate governance; and 2) lowest score of Gompers G-Index (Gompers et al., 2003)[3] are positively associated with a company's decision to be an early and voluntary filer of financial information on eXtensible Business Reporting Language (XBRL) format. Hence, I posit the first hypothesis as follows:

H1: Corporate governance practice has a positive relationship with the level of disclosure.

The empirical findings show that existence of institutional ownership (Healy, Hutton and Palepu, 1999; Mitchell, Chia and Loh, 1995; Aitken, Hooper and Pickering, 1997; and Jiambalvo, Rajgopal, and Venkatachalam, 2002) or blockholder (Birt et al., 2006) compels managers to disclose more in order to mitigate the agency problem between managers and shareholders. This finding is affirmed by Mitchell et al. (1995) and Aitken et al. (1997). They assert that higher dispersed ownership structure has a negative impact on company disclosure.

Although, the extant empirical studies show that the existence of large shareholders can lead to maximization of shareholders wealth, blockholders ownership above a certain level may lead to entrenchment of owner-managers and be detrimental to wealth of minority shareholders. (Fama and Jensen, 1983; Morck et al., 1988; Shleifer and Vishny, 1997 in Thomsen et al., 2006; Claessens et al., 2002a; Claessens et al., 2002b). Morck, et al. (1988) asserts that the effects of blockholder ownership on market value is non-linear or shown by inverted "U" shaped curve. The possible interpretation of this curve is that at low levels of ownership concentration, as the concentrated ownership increases, the agency costs decrease with the increasing surveillance of shareholders, and company profitability increases. But when the concentration of ownership is over a certain limit, controlling shareholders divert the company assets for their own private benefit, resulting in lower company profitability and wealth of minority shareholders.

Furthermore, Claessens et al. (2002a) and Classens et al. (2002b) note that the influence of concentrated ownership on company value

[3] The lower the Gompers G-index for a firm, the higher the protection of shareholder rights, and therefore the higher the corporate governance rating of the company.

depends on their cash flow rights versus their control rights. Their empirical results in East Asia show that more concentrated cash-flow rights of larger shareholders increases company value. The reason is that if controlling shareholders divert the company's cash flow and asset for their own private benefit then their high stake in the company will be jeopardized as well. Hence, controlling shareholder with higher cash flow rights are associated with the increase of the alignment effect between controlling shareholders and non-controlling shareholders. In other words, agency problems that could arise between controlling shareholders and non-controlling shareholders will be mitigated. On the other hand, higher control rights will induce controlling shareholders to expropriate the company assets for their own private benefit and reduce the company value including minority shareholders' wealth (entrenchment effect). The controlling shareholders tend to appropriate because their stake in a company are lower than their control rights.

Based on the above argument, Chau and Gray (2010) also state that the relationship between a company's voluntary disclosure and concentrated ownership is also non-monotonic. They support the argument of convergence of interest or alignment hypothesis and entrenchment effect hypothesis by Morck et al. (1988). They show that moderate family ownership (25% or less) will cause the convergence of interest between controlling shareholders and non-controlling shareholders. The controlling shareholders will be reluctant to conduct non-company-value-maximising behaviour that jeopardizes their personal wealth as well. Furthermore, the need for voluntary disclosure will be lower because there is an alignment of interest between controlling shareholders and non-controlling shareholders that decreases the supervision over insiders. But, at higher levels of concentrated ownership (more than 25 %), the controlling shareholders tend to pursue their own personal benefit and cause detriment to minority shareholders (entrenchment effect). To overcome this potential entrenchment, higher level of disclosure is necessary as the level of concentrated ownership increases. This argument leads to the following hypotheses:

H2a: Under scenario of the alignment effect, the higher concentrated ownership will reduce the extent of disclosure.

H2b: Under scenario of the entrenchment effect, the higher concentrated ownership will increase the extent of disclosure.

Luo, Courteney, Hossain (2006) mention that the proprietary cost is incurred when a competitor deploys the private information that

is revealed through voluntary disclosure and is consequently detrimental to the company performance. Therefore, the company opts to hide its future earnings and strategic decision if this could be beneficial to its competitor (Verrechia, 1983; King and Wallin, 1995). This finding is also supported by other empirical studies that show a trade-off to convey a voluntary disclosure. They assert that the advantages of higher voluntary disclosure are to decrease asymmetric information between the manager and shareholders (Hayes and Lundholm, 1996; Harris, 1998; Botosan and Stanford, 2005) and to convey a more comprehensive business strategy and strengthen the company's competitive advantage as well (Birt, Bilson, Smith and Whaley; 2006) whereas the disadvantage is that providing too much private information will reduce the company's market share (Verrecchia, 2001). The extant researches note that the benefit outweights cost if the company operates in highly competitive environments because the potential loss of market share is lower than the positive reaction of stock market (Birt et al., 2006; Darrough and Stoughton, 1990; Dye, 2001; and Verrecchia, 2001). Gelb (2000) also finds that a company opts to convey other mechanisms such as dividend payout and stock repurchases compared to voluntary disclosure, if it operates in low competitive environments. Therefore, I state the fourth hypothesis as:

H3: The level of competition is positively correlated with company disclosure level

3. Research Methodology

3.1 Variable Measurement

I employ Botosan disclosure index (Botosan, 1997) as a proxy of disclosure score. Based on 122 selected companies, Botosan Index is composed of selected items that are guided by recommendations afforded in the American Institute Certified Public Accountants (1994), the SRI International (1987) survey of investor information needs, and the Canadian Institute of Chartered Accountants (1991) study of annual reports (Walker and Tsalta, 2001). This score is computed by summing the disclosure score on five categories of voluntary information revealed in the annual report: background information, summary of historical results, key non-financial statistics, projected information and management discussion and analysis. Botosan (1997) argues that the five categories are recognised by investors and financial analysts as valuable in investment decision making. The Botosan disclosure index is widely employed in accounting research that studies the determinants of

company voluntary disclosure (Cahan, Rahman, and Perera, 2005; Kumar, Wilder, and Stocks, 2008). Further, Utama and Susmantoro (2010) assert that:

> *"In measuring disclosure level, it is required to understand the style and format of annual report of listed companies. In Indonesia, Badan Pengawas Pasar Modal (Bapepam) and Lembaga Keuangan as a regulator to monitor stock exchange in Indonesia has released a decree No: KEP-134/BL/2006 Regulation No X.K.6 that state there is obligation for publicly listed companies to publish an annual report. The decree also provides a guidance of the style and content of annual report that is mandatory to be informed to the public. According to that decree, companies have to verify significant changes compared to the last annual report (called as a management discussion and analysis). The decree also provides the style and format of annual report in general which is consist of important financial summary, commissioner's report,[4] Board of Director (BOD) report, company profile, management discussion and analysis, good corporate governance, responsibility of BOD on annual report, and audited report. Specifically on management discussion and analysis, a company has to explain the following information, i.e : operational review on each segment of business, financial performance analysis, management discussion and analysis on business condition, significant changes, impact to the company, prospect and achievement and also explanation about accounting policy that is used. The company can give additional information (voluntary disclosure) as well such as information about company strength (or other 'good news') which can be beneficial to the company".*

While in Botosan Index Management and Discussion Analysis is considered vountary, it is included as mandatory disclosure in Indonesia, as stated by Bapepam Regulation No. X.K.6. On the other hand, several forecasted information (e.g., comparison of previous revenue forecast with actual revenue, comparison of estimated sales with actual revenue, cash flow forecast, capital expenditure forecast, forecast of market share) are not mandatory in Indonesia. Hence, I corroborate that using Botosan Index in Indonesia has the purpose of computing the extent of voluntary disclosure and mandatory disclosure as well.

[4] Indonesian companies generally apply a two-tier approach of corporate governance which is the control of managing director lies in the hand of a separate supervisory board.

In this study, the value of disclosure is calculated based on the list of disclosure items and weighted according to weighted item based on study by Botosan (1997). The formula of total disclosure value is given below:

$$TSCORE_i = \sum_{i=1}^{5} SCORE_{ij}$$

Disclosure total (TSCORE) is total score for company j in category i to all category (category 1 to 5). This score then will be divided by maximum score of disclosure level:

$$DSCORE_i = \sum_{i=1}^{5} \frac{TSCORE_{ij}}{\max\,(TSCORE_i)}$$

The CG score is obtained from IICD and the score is based on the CG principles established by the Organization of Economic Coopertion and Development (OECD). The instrument is employed to gauge the following five (5) principles: 1) the right of shareholders, 2) the equitable treatment of shareholders, 3) the role of stakeholders, 4) disclosure and transparency, and 5) the responsibility of board. The level of CG practice in each individual company is conveyed through the total weighted score and the check and balance technique is conducted to prevent subjectivity in providing scores. A research team consisting of thirty (30) members evaluates the CG practices in each company and is subdivided into smaller teams consisted of two (2) assessors who conduct cross-checked every score to ensure accuracy and consistency. Finally, the result is interpreted based on the following criteria: 1) excellent (90-100%), 2) good (80-89%), 3) fair (60-79%), and 4) poor (less than 60%) (IICD, 2007).

Ownership structure is proxied by the percentage of large shareholder (blockholder) ownership. According to Eng and Mak (2003), Thomsen et al. (2006), blockholder ownership is the proportion of ordinary shares held by substantial shareholders (that is, shareholdings of 5% or more). The higher percentage of large shareholders shows more concentrated ownership.

The competition level reflects the competition among companies which belong in the same industry classification (SIC). To measure the competition level, I use Herfindahl Index (HI)[5]. The value of competition

[5] The other proxy for competition is Concentration Ratio (CR). It is called CR-4 or CR-8 which reflects the number of four or eight means the number of biggest companies (Leuz (1999) and Harris (1998). This proxy is not used in this study as not all industries have at

is 1 minus Herfindahl Index (1-H1) and has a range between 0 until 1. If the value is close to zero, it means that the competition is low while if the value is close to one it means the competition is high. To calculate HI for each industry based on SIC, the study used the formula:

$$HI_j = \sum_{i+1}^{n_j} (\frac{R_{ij}}{R_j})^2$$

R_{ij} is a revenue of company i in industry j, n_j is a number of companies in industry j.

$$R_j = \sum_{i=1}^{n_j} Rij$$

R_j is the revenue total of all companies in industry j.

The extant research uses company size as a control variable that proved to have a positive impact on disclosure level. Further, I use a log of total asset as a proxy of company size. Previous research use several proxies for company size, such as total assets, sales, number of shareholders and capital stock, and net income (Omar and Simon, 2011) and market value (Wang et al., 2008). Omar and Simon (2011) provide several reasons. First, the company disclosure requires high cost to perform thus larger firm with higher economies of scale than small firm tend to have a higher disclosure (Ferguson, Lam, and Lee, 2002; Xiao, He, Chow, 2004); Wang et al. (2011) state that large firm is closely supervised by investors and able to bear a larger cost for higher disclosure. Second, larger firms need more external financing through capital market thus higher disclosure is required to alleviate the information asymmetry between manager and providers of funds. In addition a larger firm is also followed by more analysts (Jiang, Habib, and Hu, 2011). This argumentation is supported by Foster (1986), McKinnon and Dalimunthe (1993), Bradbury (1992); and Berger and Hann, 2002. Previous research also show that larger firms have higher disclosure to enhance stock liquidity (Singvhi, 1971) and to reduce cost of debt (Sengupta, 1998). Third, the extent of firm diversification entails more comprehensive information to facilitate managers in decision making and control of operations.

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least four public listed companies. This study uses Herfindahl Index because this index is commonly used in other research and also by US Department of Justice to investigate fraud of antitrust (Birt, Bilson, Smith and Walley (2006)). Besides Helfindahl Index is also well known Herfindahl-Hirschman Index (HHI) that has the same value with Herfindahl Index (HI) multiply by 10000. HHI has value 0 to 10000. If the value closes to 0, it shown perfect competition meanwhile if the value is closest to 10000, it means the market or industry is a monopoly.

3.2 Sample

To be included in the final sample, the observation has to meet the following criteria: 1) The companies are manufacturing companies publicly listed on the Indonesia Stock Exchange; 2.) The company has an annual report in 2006; and 3) the company has a CGI score rated by IICD in 2007. Furthermore, this study uses Standard Industry Code (SIC) to determine industry classification. This information is obtained from OSIRIS data base per April 1, 2008. On the other hand, I use one years annual reporting to measure company disclosure with the assumption that the format of annual report is constant over time and hence the annual report is a good proxy of overall company disclosure as well (Botosan, 1997).

The result of sample selection is shown in table below:

Table 3: Summary of Sample Selection Procedure

Data	N
Total companies in manufacturing industries based on SIC (from OSIRIS)	107
Total companies that do not report 2006 annual report or the data is not available	(6)
Total companies that do not have CGI	(1)
Total Observations	*100*

3.3 Empirical Model

I employ Ordinary Least Squares Regression as shown below to investigate the influence of CGI, large shareholder, competition and total asset to disclosure level.

$$DSCORE_i = \beta_0 + \beta_1 * CGI + \beta_2 * BLOCK_i + \beta_3 * COMP_i + \beta_4 * SIZE_i + \varepsilon_i \quad (1)$$

$$DSCORE_i = \beta_0 + \beta_1 * CGI + \beta_2 * D_{Mi} + \beta_3 * D_{Hi} + \beta_4 * COMP_i + \beta_5 * SIZE_i + \varepsilon_i \quad (2)$$

In the first equation, I investigate *the entrenchment effect* or *alignment effect* of blockholder ownership to the company disclosure constraining that the relationship is linear. Next, in the second model, I test a possible non-linear relationship between the company disclosure and blockholder ownership. Therefore, under the second model, it is possible to have *entrenchment* and *alignment effects* at different levels of blockholder ownership. Prior studies use arbitrary levels of blockholder ownership to test the effect on the extent of voluntary disclosure. For example, Thomas et al. (2006) define low blockholder ownership as

shares held by owners who hold less than ten per cent (< 10%) and high blockholder ownership as shares held by owners who hold more than ten per cent (> 10%). They also state that this distiction is arbitrary but when they test with another threshold (including five per cent (5%) threshold), the results are qualitatively similar. Although they do not investigate the influence of blockholders on the extent of voluntary disclosure, their results show that there is a negative association between blockholder and firm value or accounting return in the next period. This significant result only applies to companies with high initial levels of blockholder ownership (i.e., greater than 10%).

Where:

DSCORE	= disclosure level,
i	= company indicator,
β_o	= intercept,
CGI	= corporate governance index,
BLOCK	= shareholder who own more than 5% of outstanding shares (Eng and Mak, 2003),
D_{Mi}	= proxy of ownership as a dummy variable, coded as 1 for share ownership between 20.1-50% and zero (0) otherwise,
D_{Hi}	= proxy of ownership as a dummy variable variable, coded as 1 for share ownership between 50.1-100% and zero (0) otherwise,
COMP	= competition proxied by Herfindahl Index,
SIZE	= log(total asset),
ε	= *error*.

Further, following Morck et al. (1988), Chau and Gray (2010) divide the levels of family shareholding, i.e. at less than five per cent (5%), between five until twenty five per cent (5- 25%), and greater than twenty five per cent (>25%) to determine *alignment effect* and *entrenchment effect*. The results show that at moderate or low levels of family shareholding (25% or less), the *alignment effec*t is dominant, whereas at high levels of family shareholding (greater than 25%), the *entrenchment effect* is dominant. I should note that family shareholding can be considered as a blockholder because

> *"blockholder ownership is measured by the fraction of "closely held shares", which includes: a) shares held by owners who hold more than 5%, b) shares held by officers, directors, and their families, c) shares held in trust (Thomsen et al., 2006)"*

The above definition is in line with the following definition:

> *family company as a company whose founder or a member family by either blood or marriage is an officer, a director, or the owner of at least 5% of the firm's equity, individually, or as a group* (Villalonga and Amit, 2006) . *While, the outside blockholders defined as entities holding 5% or more of the firm share's and having no other relationship to the firm except for their ownership (e.g. pension funds, mutual funds, etc)* (Anderson, Mansi, and Reeb, 2003).

Thus, a blockholder can be a family, a state, an institutional investor, etc as long as its ownership is greater than 5%.

Hence, in first equation, I use a proxy of blockholders ownership as a continuous variable, whereas in second equation, I use a proxy of blockholder ownership as dummy variables, i.e., medium ownership (D_{Mi}) is coded as 1 for share ownership between twenty point one until fifty per cent (20.1-50%) and zero (0) otherwise, whereas, high ownership (D_{Hi}) is coded as 1 for share ownership between fifty point one until one hundred per cent (50.1-100%) and zero (0) otherwise. I use low ownership (0-20%) as the base category.

4. Empirical Result

4.1 Descriptive Statistics

I test the distribution of disclosure data for normality before I run a multiple regression. The data follows a normal distribution if the skewness is 0, kurtosis is 3, and the Kolmogorov-Smirnov test is not significant. Kolmogorov-Smirnov test is defined by[6]

> H_0: The data follows a normal distribution
> H_1: The data does not follow a normal distribution

The result of normality testing shows that the value of Kolmogorov-Smirnov is 0.898 and p-value is 0.395, thus I reject H1 and conclude that the data follows a normal distribution.

Next, the descriptive statistic on Table 4 shows that the distribution of average company disclosure level is 0.561024, meaning that companies disclose 56% disclosure items of Botosan Index. Based on

[6] www.itl.nist.gov/div898/handbook/eda/section3eda35g.htm

average disclosure level result, 46 out of 100[7] companies have above average value. This result shows that the transparency level of manufacturing companies on the Indonesia Stock Exchange is relatively lower. Furthermore, there is wide variation of disclosure levels among manufacturing companies, i.e. between 0.2283 and 0.9764. The relatively same result is shown by industry disclosure level as well on Table 5. The average value of industry disclosure level on Table 4.3 is 54.71%, meaning that 12 out of 23 industries has below average value. This finding is contrary to Daniel (2003) who shows that listed Indonesian companies have a very high compliance with Bapepam-LK regulation. Note however, that the regulation only applies mandatory disclosures, while I employ Botosan index that consists of both mandatory and voluntary disclosures.

Table 4: Descriptive Statistics of Data Distribution for The Companies in 2006 with (n=100)

	Minimum	Maximum	Mean	Std. Deviation	Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error
DSCORE	0.2283	0.9764	0.561024	0.1479754	0.335	0.478
CGI	0.0043	0.8316	0.582134	0.2107375	0.311	0.478
BLOCK*	8.8100	97.9700	37.296000	24.6134271	-0.073	0.478
D_M[1]	0.00	1.00	0.4600	0.50091	-2.014	0.478
D_H[2]	0.00	1.00	0.2500	0.43519	-0.639	0.478
COMPT	0.4884	0.7779	0.631137	0.0604506	-0.138	0.478
SIZE	5.2434	10.3371	8.652688	0.9031349	4.687	0.478

Note: * Proxy of ownership as a continuous variable

[1] Proxy of ownership as a dummy variable, coded as 1 for share ownership between 20.1-50% and zero (0) otherwise

[2] Proxy of ownership as a dummy variable, coded as 1 for share ownership between 50.1-100% and zero (0) otherwise

[7]Due to space consideration, I do not provide the data but it can be provided by request.

Table 5: Descriptive statistics on distribution data for industries in 2006 (n=23)

	Minimum	Maximum	Mean	Std. Deviation	Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error
DSCORE	0.3307	0.7612	0.547104	0.0982362	0.091	0.935
CGI	0.5739	0.6973	0.628726	0.0413695	-1.265	0.935
BLOCK	18.16	82.68	37.4132	18.49748	0.113	0.935
COMPT	0.00	0.83	0.5197	0.21761	0.096	0.935
SIZE	7.05	9.90	8.6633	0.64390	0.715	0.935

Table 6: Data Distribution of The Industries in 2006

SIC	Average of Vol Discl (%)	Average of CGI (%)	Average of Ownership (%)	Average of Total Assets	Average of Competition	N
204	65.879	69.223	23.228	9.277	0.604	3
208	63.189	63.719	69.108	8.704	0.607	4
209	44.724	58.142	27.656	8.775	0.131	5
211	54.331	66.590	64.222	9.742	0.507	3
228	60.761	61.593	35.935	7.893	0.575	6
229	58.943	57.895	26.856	8.851	0.783	7
232	63.780	58.507	18.156	8.963	0.431	3
243	60.039	58.425	30.302	8.815	0.677	4
262	47.244	57.393	61.035	7.834	0.004	2
267	55.643	63.587	18.573	9.203	0.649	3
283	64.567	65.142	60.091	8.714	0.717	9
284	48.425	69.732	40.771	8.110	0.174	4
289	51.444	63.680	30.317	8.561	0.697	9
301	48.819	66.464	30.130	9.225	0.367	3
308	51.881	63.414	30.376	8.335	0.771	9
314	43.701	57.483	32.483	8.299	0.549	2
324	76.115	68.684	56.067	9.902	0.616	3
325	54.593	63.946	20.244	9.031	0.327	3
331	33.071	58.122	25.989	7.974	0.430	2
335	63.105	64.636	20.806	8.757	0.832	7
341	40.157	58.846	33.750	8.290	0.358	2
349	47.507	62.402	21.733	7.052	0.458	3
371	60.433	68.465	82.675	8.950	0.690	4

The competition level in the industries (denoted by C and measured by using Herfindahl Index (1-H) shows the average of competition in industry is 0.5197. There are 12 industries with value below mean HI industries. The lowest value is industry with SIC 262 (paper mills) with HI value 0.0043. Meanwhile the maximum HI value lies in industry with SIC 335 (rolling, drawing and extruding of nonferrous metals) with value 0.08316.

As shown in Table 6, the industry with SIC 324 (Cement, Hydraulic) has the highest disclosure level (0.76115). This industry has the average of large shareholder ownership (56.07 %) and the average of total asset (9.9021) which is higher compared to value of average large shareholder ownership (37.41%) and average of total asset (8.663) of all industries in Table 5. Furthermore, the average value of competition for this industry (0.6155) is higher compared to average value of competition for all the industries (0.5197).

On the other hand, the industry with SIC 331 (steel works, blast furnaces and rolling and finishing) has the lowest disclosure level (33.071%). This industry has the average ownership of large shareholder (25.99%) which is relatively lower than the average ownership of large shareholders in all industries (37.41%). The total asset of this industry is 7.9741 and the competition is 0.4297 which is relatively lower that the average of total asset (8.663) and competition (0.5197) of all industries. Based on results of descriptive statistics above, the result shows that disclosure levels tend to increase along with ownership of large shareholders, total assets and competition levels.

4.2 T-test for Mean Difference

The result of t-test for mean difference of medium ownership (i.e. 20.1%-50%) and low ownership (i.e. 0-20%) is shown in Table 7. Table 7 shows that the disclosure level of medium ownership (M = 0.52, SD = 0.13) is lower than low ownerships (M= 0.59, SD =0.15). This difference is significant, $t(98)=-2.53$, $p<.01$. . Hence, this result is consistent with hypothesis 2a, i.e. blockholder ownership between 20.1%-50% tends to cause an *alignment effect* and consequently will *decrease* the disclosure level. But further investigation through multivariate analysis will be needed to confirm this result.

Meanwhile, the result of t-test for mean difference of high ownership (50.1%-100%) and low ownership (0-20%) is presented in Table 8. Table 8 shows that the extent of disclosure level of high ownerships (M=0.62, SD=0.14)is higher than those of low ownerships (M=0.54, SD=0.15). This difference is significant, $t(98)= 2.25$, $p<.05$. Hence, this result is consistent with hypothesis 2b, i.e. blockholder ownership

between 50.1%-100% tends to cause an *entrenchment effect* and consequently will *increase* the disclosure level. But further investigation through multivariate analysis will be needed to confirm this result.

Table 7: T-test for Mean Difference of Medium and Low Blockholder Ownership

	Ownership	N	Mean	Standard Deviation	t	df
DSCORE	Medium	46	0.522	0.133	-2.527***	98
	Low	54	0.595	0.152		

Note: *, **, *** indicate significance at the 0.1, 0.05 and 0.01 levels, respectively (1 tailed)

Table 8: T-test for Mean Difference of High and Low Blockholder Ownership

	Ownership	N	Mean	Standard Deviation	t	df
DSCORE	High	25	0.618	0.144	2.254**	98
	Low	75	0.542	0.145		

Note: *, **, *** indicate significance at the 0.1, 0.05 and 0.01 levels, respectively (1 tailed)

4.3 Analysis of Correlation among Variables

Table 9 presents the correlation among variables. The disclosure level (DSCORE) is positively correlated with CGI (ϱ=0.293), competition (COMPT) (ϱ=0.438), and company size (ϱ=0.263) at significant level 1% respectively. The bivariate analysis supports H1, H3, and previous studies that use company size as a control variable, i.e. the practice of good corporate governance, competition, and total asset correlate positively with the disclosure level. Furthermore, higher blockholder ownership increases the company disclosure, consistent with the entrenchment effect and thus supporting the H2b. Nevertheless, when I divide the ownership into dichotomous variables, the result shows that medium ownership has a lower disclosure level than low ownership, thus representing an *alignment effect* and supporting H2a, whereas high ownership has a higher disclosure level than low ownership, so representing an *entrenchment effect* and supporting H2b.

4.4 Regression Analysis

Analysis of regressions conducted after validity; check that assumption of OLS regression is fulfilled. As shown in table 10, the result of Model 1 has R^2 30%, meaning that the internal factors (CGI, ownership of

blockholder, and company size) and the external factors (competition) can explain 30 % variation of company disclosure level. The results also show that the company disclosure increases with good CG. The coefficient of CGI is 0.173 and significant at 1% level, thus H1 is supported. Thus, this study supports the Premuroso and Bhattacharya (2008) because I use a comprehensive measurement of CG's practice instead of CG's attributes (Ho and Wong, 2001; Eng and Mak, 2003) to investigate its impact on company disclosure.

The coefficient of blockholder ownership (BLOCK) is not significant although the sign of the coefficient is relatively the same as the result shown by correlation analysis. The results suggest that neither alignment effect nor entrenchment effect dominates, when I constrain the effect ought to be one of them at any level of blockholder ownership.

Tabel 9: Pearson Correlation Analysis

	DSCORE	CGI	BLOCK	DM	DH	COMPT	SIZE
DSCORE	1						
CGI	0.293**	1					
	(0.002)						
BLOCK	0.183*	0.005	1				
	(0.068)	(0.480)					
DM	-0.247**	0.008	-0.252**	1			
	(0.007)	(0.468)	(0.006)				
DH	0.222*	-0.028	0.893**	-0.533**	1		
	(0.013)	(0.391)	(0.000)	(0.000)			
COMPT	0.438**	0.081	0.118	-0.083	0.098	1	
	(0.000)	(0.213)	(0.122)	(0.207)	(0.167)		
SIZE	0.263**	0.101	0.049	-0.021	0.076	0.199*	1
	(0.004)	(0.159)	(0.315)	(0.419)	(0.225)	(0.024)	

Note: *, **, *** indicate significance at the 0.1, 0.05 and 0.01 levels, respectively
The given p-value for all variables already divided by 2 (two) because the hypotheses test are one-tailed test except for blockholder.

The coefficient of competition (COMPT) is positive (0.909) and significant at the 1% level, so H3 is substantiated. It shows that higher competition encourages the company to increase their disclosure. This finding supports the argument that companies in a highly competitive environment will have a greater incentive to disclose, because the potential loss of market share is relatively lower than in low competitive environments. Releasing additional information could be beneficial to the company because it could reduce asymmetric information between

management and the shareholders (Hayes and Lundholm, 1996; Harris, 1998; Botosan and Stanford, 2005, Harris, 1998).

This study finds the coefficient value of company size (SIZE) is positive (0.026) and significant at the 5% level. Therefore, it proves that the larger total asset will enforce the company to increase their disclosure level. This finding supports the argument that: 1) potential loss caused by agency problem is higher for a company with larger total assets (Foster, 1986; McKinnon and Dalimunthe, 1993; Bradbury, 1992; and Berger and Hann, 2002); and 2) increasing transparency of larger total assets will promote a company's good reputation. Furthermore, company will get easier access to external financing (Sengupta, 1998).

Table 10: Multiple Regression Results of Model 1

$DSCORE_i = \beta_o + \beta_1*CGI + \beta_2*BLOCK_i + \beta_3*COMP_i + \beta_4*SIZE_i + \varepsilon_i$
Dependent Variable: Disclosure Level
$R^2 = 0.300$
Adjusted $R^2 = 0.270$
F Significance = 0.000
Number of significant coefficients = 3
N = 100

Explanatory Variable	Coefficient	Std Error	Beta t-values	Significance[8]
(Constant)	-0.365**	0.166	-2.205	0.030
CGI	0.173***	0.061	2.846	0.003
BLOCK	0.001	0.001	1.507	0.136
COMPT	0.909***	0.216	4.202	0.000
SIZE	0.026**	0.014	1.790	0.039

Note:
CGI = Corporate Governance Index
BLOCK = shareholder who own more than 5% of outstanding shares
COMPT = competition proxied by Herfindahl Index
SIZE = log(total asset)
*, **, *** indicate significance at the 0.1, 0.05 and 0.01 levels, respectively

The weakness in model one is that I assume the relationship between the company disclosure and blockholder ownership to be linear. Hence, following the methodology suggested by Morck et al. (1998), Chau and Gray (2010), I conduct our regression analysis by

[8] The given p-value for all explanatory variables already divided by 2 (two) because the hypotheses test are one-tailed test except for blockholder.

dividing the levels of blockholder ownership as less than 20.1%, between 20.1% until 50%, and greater than 50% to determine: 1) the possible non-linear relationship between the company disclosure and blockholder ownership; 2) the impact of *alignment effect* and *entrenchment effect* of blockholder ownership to company disclosure.

Table 11: Multiple Regression Results of Model 2 Assuming Low Ownership as a Base Category

$DSCORE_i = \beta_o + \beta_1*CGI + \beta_2*D_{Mi} + \beta_2*D_{Hi} + \beta_4*COMP_i + \beta_4*SIZE_i + \varepsilon_i$

Dependent Variable: Disclosure Level

$R^2 = 0.335$

Adjusted $R^2 = 0.300$

F Significance = 0.000

Number of significant coefficients = 4

N = 100

Explanatory Variable	Coefficient	Std Error	Beta t-values	Significance[9]
(Constant)	-0.308*	0.164	-1.878	0.063
CGI	0.177***	0.060	2.968	0.002
D_M	-0.499**	0.029	-1.675	0.049
D_H	0.032	0.034	0.930	0.178
COMPT	0.891***	0.211	4.212	0.000
SIZE	0.025**	0.014	1.786	0.039

Note:

CGI = Corporate Governance Index

D_{Mi} = proxy of ownership as a dummy variable variable, coded as 1 for share ownership between 20.1-50% and zero (0) otherwise

D_{Hi} = proxy of ownership as a dummy variable variable, coded as 1 for share ownership between 50.1-100% and zero (0) otherwise

COMPT = competition proxied by Herfindahl Index

SIZE = log(total asset)

*, **, *** indicate significance at the 0.1, 0.05 and 0.01 levels, respectively (1 tailed)

[9] The given p-value for all explanatory variables already divided by 2 (two) because the hypotheses test are one-tailed test.

Table 12: Multiple Regression Results of Model 2 Assuming Medium Ownership as a Base Category

$DSCORE_i = \beta_o + \beta_1*CGI + \beta_2*D_{Li} + \beta_3*D_{Hi} + \beta_4*COMP_i + \beta_4*SIZE_i + \varepsilon_i$
Dependent Variable: Disclosure Level
$R^2 = 0.331$
Adjusted $R^2 = 0.296$
F Significance = 0.000
Number of significant coefficients = 4
N = 100

Explanatory Variable	Coefficient	Std Error	Beta t-values	Significance[10]
(Constant)	-0.357**	0.164	-2.180	0.016
CGI	0.175***	0.060	2.927	0.002
D_L	0.044*	0.029	-1.487	0.070
D_H	0.079***	0.031	2.538	0.007
COMPT	0.893***	0.212	4.213	0.000
SIZE	0.025**	0.014	1.783	0.039

Note:
CGI = Corporate Governance Index
D_{Li} = proxy of ownership as a dummy variable variable, coded as 1 for share ownership at less than and equal to 20% and zero (0) otherwise
D_{Hi} = proxy of ownership as a dummy variable variable, coded as 1 for share ownership between 50.1-100% and zero (0) otherwise
COMPT = competition proxied by Herfindahl Index
SIZE = log(total asset)
*, **, *** indicate significance at the 0.1, 0.05 and 0.01 levels, respectively (1 tailed)

As shown in Table 11, the result shows that the coefficient of D_M is significantly negative; suggesting that relative to the low blockholder ownership, the existence of blockholders at medium level ownership aligns the interest of majority shareholders and minority shareholders, thus decreasing the urgency of monitoring through financial disclosure. Thereby, this result supports Morck et al. (1998) and Chau and Gray (2010). Our study finds that the disclosure level of high blockholder ownership is not different from low ownership. Therefore, I conclude that H2a is substantiated for level of blockholder ownership up to 50%. Furthermore, like Model 1, I find that CGI, COMPT, and SIZE have a

[10] The given p-value for all explanatory variables already divided by 2 (two) because the hypotheses test are one-tailed test.

positive influence to the company disclosure. Thus, H1 and H3 are supported.

Model 2 treats low blockholder ownership as the basis of comparison for medium and high blockholder ownership; therefore, I cannot directly test if there is significant difference of company disclosure between medium and high blockholder ownership. Hence, I run another regression employing medium blockholder ownership as the base category. Thus, D_L is coded 1 for low blockholder ownership and zero (0) otherwise and D_H is coded 1 for high blockholder ownership and zero (0) otherwise. Table 12 shows that the coefficient of low ownership is positive and marginally significant. Thus, the company with low ownership has a higher of company disclosure than medium ownership, consistent with the result in Table 9. This result proves that *alignment effect* dominates when blockholder ownership is less than 50% and then the need for financial disclosure decreases. The coefficient of high ownership is positive and significant at 1%. Hence, a higher blockholder ownership increases the company disclosure, implying that *entrenchment effect* becomes dominant for blockholder ownership beyond 50%. Overall, this result corroborates the result of Chau and Gray (2010) who find a non-linear relationship between a company disclosure and blockholder ownership. I find that medium blockholder ownership has a lower disclosure than low ownership because the *alignment effect* dominates the *entrenchment effec*t, whereas high blockholder ownership has a higher disclosure than medium blockholder ownership because the *entrenchment effect* dominates the alignment effect. This finding also explains the insignificant coefficient of blockholder ownership in model 1, because our result finds that a relationship between company disclosure and blockholder is not linear.

Based on the result above, I conclude that concentrated ownership in Indonesian companies exhibit less severe agency problems that arise from separation of ownership and management (Type I agency problems). However, they are characterised by more severe agency problems that arise between controlling and non-controlling shareholders (Type II agency problems) (Gilson and Gordon, 2003). Further, the influence of blockholder on company disclosure differs at different level of blockholder's ownership due to *alignment effect* and *entrenchment effect*. As shown by the empirical finding, a moderate level of ownership is associated with lower disclosure because the *alignment effect* is dominant whereas a high level of ownership has a higher disclosure because the *entrenchment effect* is dominant.

4.5 Sensitivity Analysis

Table 13: A Bivariate Analysis with Moderating Variable of Ownership Structure to The Relationship of CGI and The Disclosure Level

	DSC	CG	BLOC	D_M	D_H	COM	SIZ	CGI	CGI	CGIBlo
DSCORE	1									
CGI	0.293**	1								
	(0.002)									
BLOCK	0.183*	0.005	1							
	(0.034)	(0.48								
D_M	-0.247**	0.008	-0.252**	1						
	(0.007)	(0.46	(0.006)							
D_H	0.222*	-	0.893**	-	1					
	(0.013)	(0.39	(0.000)	(0.00						
COMPT	0.438**	0.081	0.118	-	0.098	1				
	(0.000)	(0.21	(0.122)	(0.20	(0.16					
SIZE	0.263**	0.101	0.049	-	0.076	0.199*	1			
	(0.004)	(0.15	(0.315)	(0.41	(0.22	(0.024)				
$CGID_M$	-0.215*	0.014	-0.245**	0.994	-	-0.015	-	1		
	(0.016)	(0.44	(0.007)	(0.00	(0.00	(0.442)	(0.42			
$CGID_H$	0.244**	-	0.892**	-	0.992	0.167*	0.111	-0.525**	1	
	(0.007)	(0.36	(0.000)	(0.00	(0.00	(0.048)	(0.13	(0.000)		
CGIBlock	0.183*	0.005	1.000**	-	0.893	0.118	0.049	-0.245**	0.892**	1
	(0.034)	(0.48	(0.000)	(0.00	(0.00	(0.122)	(0.31	(0.007)	(0.000)	

*Correlation is significant at the 0.05 level (1-tailed).

**Correlation is significant at the 0.01 level (1-tailed).

Because the proxy of CGI rated by IICD do not quantitatively measure the ownership structure in Indonesia - including their alignment effect and entrenchment effect, I thus expect that the relationship between CGI and the company disclosure will be affected by the blockholder ownership. If the entrenchment effect is dominant, I expect that the positive relationship between CGI and the company disclosure will be weaker because blockholders will exert their control to reduce the effectiveness of CG in increasing the company disclosure. On the contrary, if the alignment effect is dominant, I expect that the existence of

blockholders will strengthen the positive relationship between CGI and the company disclosure.

Predicated by bivariate analysis in Table 13, the result shows that the existence of blockholder strengthens the positive relationship between CGI and the company disclosure (ϱ = 0.183 and significant at 5% level). Furthermore, when I split the ownership structure, the result shows that medium ownerhsip weakens the positive relationship between CGI and ownership structure (ϱ = -0.215 and significant at 5% level) whereas high ownership strengthens the positive relationship between CGO and ownership structure (ϱ = 0.244 and significant at 1% level).

Analysis of regressions conducted after validity check that an assumption of OLS regression is fulfilled. As shown in Table 14, I do not find that ownership structure affects the effectiveness of CG to the company disclosure but the ownership structure still has a direct influence to the company disclosure. The company with ownership ranged between 20.1 % until 50 % (medium ownership) still has a lower company disclosure compared to ownership less than 20.1 % (low ownership) and significant at 10 % level. Therefore, medium ownership tends to cause the *alignment effect* whereas I do not find the differentials of company disclosure between high ownership and low ownership. I also find that practice CG still has a positive influence on company disclosure and is significant at 1% level.

I also examine the impact of leverage on company disclosure. There are two opposing arguments regarding the influence of leverage on company disclosure. On one side, some prior studies state that the creditors demand higher monitoring cost including higher levels of disclosure for companies with higher leverage. The highly leveraged companies tend to reveal more financial information to creditors to get an easier future external financing access (Jensen and Meckling, 1976; Belkaoui and Kahl, 1978; Malone, Fries, and Jones, 1993 in Premurose and Bhattacharya, 2008). But on the other side, higher leverage considered as a substitute device for diclosure because leverage mitigates the free cash flow problem, and restrictive covenants in debt are used instead of more financial disclosure to reduce the agency cost of debt (Jensen and Meckling, 1986; Eng and Mak, 2003).

Predicated by Table 15, I find that the leverage has no positive influence on company disclosure. The argument of this insignificant result is in Indonesia the company is required to provide high collateral in tangible assets. Thus, the creditor may reduce the monitoring through financial disclosure. But this result warrants further investigation. Meanwhile, other determinants of disclosure levels yield the same result, i.e. CGI, competition, and size have a positive influence on company

disclosure whereas the company that has an ownership ranging between 20.1 % until 50 % has a lower a disclosure than an ownership of less than 20.1 %.

Table 14: Multiple Regression Results where Ownership as a Moderating Variable to the Relationship between CGI and the Disclosure Level

Dependent Variable: Disclosure Level
$R^2 = 0.339$
Adjusted $R^2 = 0.288$
F Significance = 0.000
Number of significant coefficients = 4
N = 100

Explanatory Variable	Coefficient	Std Error	Beta t-values	Significance[11]
(Constant)	-0.341**	0.172	-1.980	0.026
CGI	0.172***	0.061	2.821	0.003
D_M	-0.049*	0.030	-1.635	0.053
D_H	0.033	0.034	0.965	0.169
$CGID_M$	0.136	0.513	0.266	0.340
$CGID_H$	-0.219	0.536	-0.409	0.342
COMPT	0.917***	0.217	4.233	0.000
SIZE	0.027**	0.027	1.874	0.032

Note:
CGI = Corporate Governance Index
D_{Mi} = proxy of ownership as a dummy variable variable, coded as 1 for share ownership between 20.1-50% and zero (0) otherwise
D_{Hi} = proxy of ownership as a dummy variable variable, coded as 1 for share ownership between 50.1-100% and zero (0) otherwise
CGIDM = interaction variable between CGI and medium ownership
CGIDH = interaction variable between CGI and high ownership
COMPT = competition proxied by Herfindahl Index
SIZE = log(total asset)
*, **, *** indicate significance at the 0.1, 0.05 and 0.01 levels, respectively (1 tailed)

[11] The given p-value for all explanatory variables already divided by 2 (two) because the hypotheses test are one-tailed test.

5. Implications and Conclusion

This study shows that disclosure levels of public listed companies at the Indonesia Stock Exchange are affected by: 1) internal factors: i.e., CG practice, blockholder ownership, and total asset; 2) and external factors, i.e. competition. Using Botosan Index as a proxy of company disclosure and Herfindahl Index as a proxy of competition, the results show that CG practice, total assets, and competition have a positive influence on company disclosure.

Table 15: Multiple Regression Results where Leverage as an Additional Control Variable

Dependent Variable: Disclosure Level
$R^2 = 0.339$
Adjusted $R^2 = 0.297$
F Significance = 0.000
Number of significant coefficients = 4
N = 100

Explanatory Variable	Coefficient	Std Error	Beta t-values	Significance[12]
(Constant)	-0.348*	0.173	-2.019	0.023
CGI	0.184***	0.060	3.047	0.002
D_M	-0.050**	0.029	-1.693	0.047
D_H	0.029	0.034	0.845	0.200
COMPT	0.948***	0.225	4.220	0.000
SIZE	0.024**	0.014	1.638	0.053
LEVERAGE	0.026	0.033	0.767	0.223

Note:
CGI = Corporate Governance Index
D_{Mi} = proxy of ownership as a dummy variable variable, coded as 1 for share ownership between 20.1-50% and zero (0) otherwise
D_{Hi} = proxy of ownership as a dummy variable variable, coded as 1 for share ownership between 50.1-100% and zero (0) otherwise
COMPT = competition proxied by Herfindahl Index
SIZE = log(total asset)
LEVERAGE = debt to total asset ratio
*, **, *** indicate significance at the 0.1, 0.05 and 0.01 levels, respectively (1 tailed)

[12] The given p-value for all explanatory variables already divided by 2 (two) because the hypotheses test are one-tailed test.

Furthermore, I find that the influence of blockholder ownership over company disclosure is non-linear. The result shows that companies with medium blockholder ownership have a lower company disclosure than both low and high blockholder ownership. This result proves that the medium blockholder ownership in Indonesia causes an *alignment effect* whereas high blockholder ownership causes an *entrenchment effect*. Finally, I do not find an influence of leverage on company disclosure.

The implication of this study is that the government should play an active role to encourage the best practices of CG and also favourable business competition so that high competition can motivate companies to implement high disclosure. Furthermore, regulators on stock exchange Bapepam & LK and Indonesia Stock Exchange should improve the mechanism to increase disclosure levels of public listed companies in Indonesia in order to create better fair business environments and risk-protection for investors. Finally, the regulatory framework must be carefully developed by policy makers considering the complex influence of the existence of blockholders (concentrated ownership) on company disclosure. The implication is in line with the result of CG Watch 2010 conducted by CLSA, which provides a low score (i.e., 40) of Indonesia's transparency, fairness, and accountability compared to the average score of other Asian countries (i.e. 52.7). The study states that: 1) Indonesia has a strengthened disclosure of related party and conflicted transactions; and 2) improved non-financial reporting standards, with an emphasis on corporate social responsibility (CSR) reporting. But the study also underlines that Indonesia still has a lack of political and regulatory measures, such as securities laws that fail to require disclosure of share transactions within three working days and prevent insider trading and market manipulation.

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