Determinants and Consequences of Extended Disclosure under Concentrated Ownership Environment: The Indonesian Evidence

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This study is aimed at providing evidence in regard with (1) the economic consequences of quality of extended disclosure and (2) the influence of ownership and director characteristics on the quality of extended disclosure. Using 260 firm years of the Indonesian firms, this study finds that the increase of disclosure quality is found to have a positive correlation with the increase of share price five (5) days after the announcement date of financial reports and the increase of Return of Assets (ROA). In regard with ownership and director characteristics, this study finds that government ownership and size of board have a positive relationship with disclosure quality; while management and block-holder ownership are not relevant in increasing disclosure quality. It is also found that individual characteristics of director which are independence and financial expertise/background do not have any relationship with the quality of extended disclosure. From the study, it can be concluded that extended disclosure is an effective tool to increase the financial performances of a firm under a concentrated ownership environment such as in Indonesia. Government and board directors are two players who induce firms to increase transparency through voluntarily disclosure.

Keywords: voluntarily disclosure, concentrated ownership, corporate governance, independent director, economic consequences

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Penelitian ini bertujuan untuk memberikan bukti sehubungan dengan (1) konsekuensi ekonomi dari kualitas pengungkapan diperpanjang dan (2) pengaruh kepemilikan dan karakteristik direktur pada kualitas pengungkapan diperpanjang. Dengan menggunakan 260 perusahaan di Indonesia, studi ini menemukan bahwa peningkatan kualitas pengungkapan ditemukan memiliki korelasi positif dengan kenaikan harga saham lima (5) hari setelah tanggal pengumuman laporan keuangan dan peningkatan Return of Asset (ROA). Berkenaan dengan kepemilikan dan karakteristik direktur, penelitian ini menemukan bahwa kepemilikan pemerintah dan ukuran dewan memiliki hubungan positif dengan kualitas pengungkapan; sementara manajemen dan kepemilikan pemegang blok tidak relevan dalam meningkatkan kualitas pengungkapan. Juga ditemukan bahwa karakteristik individu direktur yang independen dan keahlian / latar belakang keuangan tidak memiliki hubungan dengan kualitas pengungkapan yang diperluas. Dari penelitian ini, dapat disimpulkan bahwa pengungkapan yang diperluas adalah alat yang efektif untuk meningkatkan kinerja keuangan perusahaan di bawah lingkungan kepemilikan yang terkonsentrasi seperti di Indonesia. Pemerintah dan dewan direksi adalah dua pemain yang mendorong perusahaan untuk meningkatkan transparansi melalui pengungkapan sukarela.

Keywords: voluntarily disclosure, concentrated ownership, corporate governance, independent director, economic consequences

INTRODUCTION

The Asian Development Bank (2014) has reported that despite significant improvements made by the Indonesian firms with regards to the implementation of good corporate governance, a lack of disclosure qualities especially the disclosure of ownership structure and minority shareholder protection is still the main weaknesses of corporate governance practices in Indonesia. The phenomenon of low level of disclosure in Indonesia contradicts with theoretical benefits of full disclosure. The literature of corporate governance asserts that low quality of disclosure will result in asymmetric information which consequently decreases the confidence of investors. On the other hand, it is argued that extended disclosures or voluntary disclosures provide investors with ample information in correcting any misevaluation and increases investor's interest and stock liquidity (Healy, Hutton, and Palepu 1999). Hence, high quality of disclosure will result in improved firm value, as investors are confident and able to predict firm's financial performance. Wang et al (2008) found a significant positive relation between voluntary disclosure and firm's financial performance measured by return on equity. Although theoretically extended disclosure benefits firms, firms in Indonesia still are not encouraged to improve the disclosure through extended or voluntary disclosures.

The less-dispersed ownership which may lead to the occurrence of information asymmetry, is considered as a prevalent practice in many developing countries and identified as lowering the quality of disclosure, as dominant shareholders might have more access to information (Bauwhede and Willekens 2008). Ownership concentration may substitute other control mechanisms and can be used by block-holders to facilitate expropriation (Bozec and Bozec, 2007). Attig et al (2006) suggest that inadequate disclosure will aggravate information asymmetry, enabling block-holders to rely on insider information in making decisions which may benefit block-holders but could harm the interest of non-block holders (minority shareholders). Theoretically block-holders can affect firm value negatively through "voice" and "exit" (Edmans, 2014). As the block-holders have a big shares, they have more power ("voice") to intervene the management which may result in dispute or even they may dispel managers which consequently harm the share prices. Furthermore, if the dispute is unsolved the block-holders may "exit" from the companies by selling their shares which then pushing down the stock prices. On the contrary, a diffused ownership company may have more incentives to provide voluntarily disclosure in order to reduce agency costs, as voluntarily disclosure facilitates public communication which results in lower information asymmetry and adverse reaction from investors (Garcia-Meca & Sanchez-Ballesta 2010).

For the last few decades, there is an increasingly research interests on how the firm's ownership structure affects information disclosure. Some studies provide evidence on the positive association between information disclosure and shares that held by institutional investors (Ajinkya et al, 2005; Karamanou and Vafeas, 2005; Darmadi and Sodikin, 2013). However, Leung and Horwitz (2004) found that board ownership negatively influences of voluntary disclosure.

In the Indonesian case, the World Bank (2010) has recommended some important improvements in the agenda of corporate governance practices in Indonesia which mainly focus on improving regulations regarding the disclosure and the effectiveness of independent commissioners in order to improve corporate governance practises. Indonesia is the largest economy in Southeast Asia and top eighteenth in the world and Indonesia is one of Asia's emerging capital markets which attracts global investment around the world. Compared with the other East Asian countries, Indonesian listed firms has a higher level of ownership concentration and the disclosure quality is still weak (Claessens et al., 2000). However, the benefits and determinants of extended disclosure, as well as the relationship between ownership characteristics and disclosure quality in developing countries especially in Indonesia are still rarely observedconsequences and determinants of extended disclosure in the concentrated ownership structure countries especially Indonesia.

This paper examines the economic benefits of voluntarily disclosure and the determinants of voluntarily disclosure in Indonesia which is characterized as highly concentrated ownership environment. The economic benefit factors which are ROA and stock return were tested to correlate with voluntarily disclosure. Factors influencing the quality of disclosure which include ownership and director characteristics were also examined, as director characteristics are the important parts of corporate governance mechanisms.

This research attempts to address gaps in the current literature as: (1) studies about determinant and economic consequences of voluntarily disclosure are mostly conducted in developed countries which have different capital markets and ownership environments; (2) the knowledge about the reasons of low disclosure is still limited as many institutions such as the World Bank and the Asian Development Bank (ADB) reported that a lack of disclosure is the main weakness of corporate governance in Indonesia and other emerging countries, a better understanding of the determinants of extended disclosure is useful for regulators to improve the disclosure regulation; (3) knowledge of economic consequences is also still needed to explore. The economic consequences awareness among the business players may increase the willingness of firms to improve the quality of disclosure; (4) the paper involves two important variables, namely ownership variables and corporate governance variables argued as the most important determinants of voluntarily disclosure in emerging countries which to some extent are overlooked.

THEORETICAL FRAMEWORK AND HYPOTHESES

Transparency through disclosure is regarded as one of the most important aspects of good corporate governance. Strong corporate governance could boost more transparent information disclosure (Chen and Jaggi, 2000). Corporate governance play important role in ensuring firms to comply with regulation and fairly uncover information to stakeholders. Based on agency theory, firm management tend to not disclose information which may minimize market's ability in monitoring firm performance which then creating "disclosure agency problem" (Karamanou and Vafeas, 2005). The aim of firm's information disclosure is to communicate economic information about the firm to stakeholders that can be useful to make decisions on the allocation scarce resources (Cooke, 1989). Disclosure is expected to reduce asymmetry information between owners and managers. Disclosure might enable shareholders to monitor managerial performances and minority shareholders to control block-holders (Chau and Grey 2010). Hence as explained before, disclosure is an important mechanisms to improve corporate governance quality and it may benefit firms.

Capital market theory states that although there is no regulation which demands firms to disclose information, firms may still prefer to disclose information to lever market value (Clarkson et all 1994). This contention is based on the argument that managers try to convey good news by disclosing more information. Firms may disclose information through financial reports as demanded by regulations. Furthermore, firms may engage in voluntarily disclosure such as management forecasts, analyst presentations, and other corporate reports. There are six hypotheses which explain why managers engage in voluntarily disclosure (Healy and Palepu2001): First, capital market transaction hypothesis which argues that firms will try to reduce asymmetry information risks which result in high cost of capital by increasing disclosure. Second, corporate contest hypothesis as managers are worried to lose their jobs due to poor stock performance, they tend to disclose information to convey good news through voluntarily disclosure. Third, stock compensation hypothesis, as managers are rewarded using stock bonus, they will try to reduce allegation risks of insider trading by disclosing more information to capital market. Fourth, litigation cost hypothesis states that litigation threat from investors due to inadequate and untimely disclosure may induce managers to disclose and not disclose as inaccurate disclosure may increase litigation risks. Fifth, proprietary cost hypothesis, managers may not disclose certain information which could harms their product competitiveness. Six, management talent signaling theory argues that talented managers will make voluntarily disclosure to reveal their types.

Ownership Concentration

Ownership and control cannot be completely separated within a firm, as owners have a control right and the controllers frequently have equity ownerships. Therefore, ownership structure is a part of the important elements of corporate governance. The traditional agency conflict between owners and controllers (managers) has given rise to the proposition for greater overlap between ownership and control. Managerial ownership is perceived to reduce conflict of interest between controllers and owners, and thus, to increase firm value (Denis & McConnell 2003). Several studies found that various ways have been carried out by controlling shareholders to extract private purpose, so corporate governance practices tend to be frail due to superfluous monitoring on management (Johnson et al. 2000; Bertand et al. 2002; Darmadi and Sodikin, 2013).

However, the concentration of ownership is not an effective mechanism to reduce agency problems in certain environment. Yunos (2011) states that managerial ownership would not reduce conflict of interest in countries where ownership structure is highly concentrated such as in East Asian countries. In such countries, the controlling owners have access to private information and might take advantage of it by jeopardizing the interests of the minority shareholders. A high concentration of ownership would cause a conflict interest between large shareholders and minority shareholders, leading to low financial performance (Yunos, 2011). Thomsen, Pedersen and Kvist (2006) had a similar argument by providing evidence in Continental European countries where minority shareholder protection is low. High block-holder ownership was reported as related to lower firm value and accounting profitability. This finding did not conclude that ownership concentration had no contribution to firm value; nevertheless if the level of block-holder ownership is considered too high by minority shareholders, it would have a negative effect on the following year of financial performance (Thomsen, Pedersen & Kvist 2006). If block holders did not improve firm value, then dispersed ownership should be more advantage for sharing risk, from Darwinist perspective (Edmans, 2014). Edmans and Manso (2011) found block holders dispersion is desired (up to point) in situations where ”exit” is an effective governance mechanism.

Economic Consequence Of Voluntarily Disclosure

Public disclosure may facilitate the reduction of information asymmetries for investor (Kim and Verrechia, 1994). If all investor well informed, then investors are confident that stock prices which occur during an announcement date are fairly valued. As a consequence, extended information may result in more stock liquidity. Research has documented the economic consequences of high voluntarily disclosure in many countries. Healy, Hutton and Palepu (1999) found that an increase of disclosure rating of 97 U.S firms is followed by the increase of stock return, institutional ownership and stock liquidity. This research indicates that extended disclosure attracts institutional investors and analysts, as well as increases the confidence of investors. A positive relationship between increased disclosure and a firm's growth and size was also identified by some research. Iatridis (2006) reports higher size, growth and leverage of high quality disclosure of UK's firms. Firms tend to disclose more sensitive accounting issues to convince investors of the credibility of their accounting policies. However, Yang (2012) argues that stock reaction of extended disclosure will depend on the credibility of such disclosure. Stock reaction of management forecast disclosure is reported higher if historical forecast disclosures of managers show higher accuracy (Yang 2012). Uninformed investors may manipulate the stock price downward by short-selling, such sales will reduce the stock price and make the manager into thinking that his investment opportunities are poor and causing him to disinvest incorrectly. This position can make benefits for "short investors" from this incorrect action (Goldstein and Guembel, 2008; Khanna & Mathews, 2012).

As research focuses on the US setting, Bailey, Karolyi and Salva (2006) observe the economic consequences of extended disclosure of non-US firms which are listed in the US capital market has been deserved. It is assumed that the US capital market has better disclosure regulations compared to non-US countries. Surprisingly, they find that firms which are listed in the US capital market experience larger abnormal return and volume trading in home capital markets. Furthermore, the high quality disclosure of 387 non-US firms leads to larger abnormal return and volume trading compared to those of US firms. However, the level of voluntarily disclosure of samples was not measured, as well as the comparation of the economic consequences between samples and other firms in home countries which results in limited knowledge about economic consequences of high disclosure firms in home countries. Mitton (2002) provides evidence with regard to the relationship between the disclosure quality and performance during a crisis period. Firms in five Asian countries which had better disclosure and lower ownership concentration showed better performance during the 1997-1998 crises (Mitton 2002). There is evidence about a significant positive relation between voluntary disclosure and a firm's financial performance measured by return on equity in Chinese stock market (Fan, 2006; Wang et al, 2008). Boyson and Mooradian (2011) show that hedge fund activism (shareholders activism) is associated with gains in long term operating performance and short term stock performance. 13D filing (form that must be filled with US SEC when a person or group acquires more than 5% of firm shares) by hedge fund activist lead to larger even study returns and improvement in return on asset (ROA), implying an additional return to activism over stock picking (Edmans, 2014). Bourveau and Schoenfeld (2017) found that when the threat of activism increases, managers respond by increasing disclosure (voluntary disclosure).

In Indonesia, where the institutional environment relatively still weak and the history of the stock market and lack of financial intermediaries, it is predicted that firms with high disclosure quality (financial performance information) more attract investors to make investment decision. As such the first hypothesis of this paper is formulated as:

H-1: there is a positive correlation between voluntarily disclosure quality and stock return, as well as return on assets

Determinants of Voluntarily Disclosure

Ownership structures and corporate governance are hypothesized to influence a company's policy in regard to disclosure as these factors help reduce agency problems. Previous research suggests the relationship between ownership structure and disclosure that Institutional ownership is reported as a determinant of voluntarily disclosure (Kim and Verrechia 1994; Rouf and Harun 2011). Darmadi and Sodikin (2013) provide evidence about the relationship between institutional ownership and disclosure in Indonesia. They propose an argument that institutional ownership reduces information asymmetry, especially in firms where family ownership is prevalent. This argument is based on Claessen and Fan (2002) who argue that institutional ownership might improve corporate governance practices in East Asian countries in which ownership is concentrated in few investors or family members. Khanna & Mathews (2012) show that block holders with a sufficient stake will have an incentive to buy and to counteract speculators. Interestingly, an increase of the block holder's private information may weaken governance, as it may encourage to trade on information to maximize trading profits, rather than counteract speculators.

However, the research on the relationship between ownership concentration and voluntarily disclosure is limited and provides inconsistent results (Garcia-Meca and Sanchez-Ballesta 2010). High ownership concentration firms tend to have low voluntarily disclosure was found by Legenzova (2008). The same evidence is also provided by Chau and Gray (2002). While Brammer and Pavelin (2006) support a positive relationship. This study argues that as the Indonesian regulation still has a lower protection on minority shareholders, ownership concentration is used by investors to control managers. As dominant shareholders have a direct access to private information, firms tend to convey less information. Pagano and Roell (1998) found manager ownership chooses shareholder structure when going public. Manager wishes to maximize the sum of firm value and his private benefits for example the net of monitoring costs borne by the new block holders (as manager will demand a price discount to offset these costs).

In Indonesia, the government still takes a major role in business. Many Indonesia large companies are owned by the government. These state-owned companies are assumed to provide more information to public, as they will more control from the public. Unlike westernized corporate governance in other business forms, state-owned firms still operate in highly respect to corporate governance and management control (World Bank, 1995). Hence, government ownership has a greater incentives to disclose additional voluntary information to facilitate investor interest regarding firm value and management quality, the potential for asset misappropriation, and the government role as a major shareholders. A study in China, stated that an additional disclosure by government ownership probably less costly since most of firms are operate in industries deemed by the Chinese government to be of strategic importance and are protected from international competition (Wang et al, 2008). Ferguson et al (2002) found that state-owned firms disclosed significantly more strategic and financial information. In the annual reports of Chinese listed firms, Wang et al (2008) found the level of voluntary disclosure has a positive relation with the proportion of state ownership. Xiao et al (2004) state that firms with higher state ownership reduce their website information disclosure to the public. This result is a reflection of the current lack of attention on profitability and efficiency by government shareholders or the government direct access to firm insider information. The previous study shown that the association between voluntary disclosure and government ownership still indeterminable. With the character of the firms in Indonesia mentioned earlier, the hypothesis in this study leads to a positive relationship more dominant. Therefore hypothesis 2, 3, and 4 of this study are proposed as:

H-2: Ownership concentration has a negative relationship with the degree of voluntarily disclosure

H-3: Managerial ownership has a positive relationship with the degree of voluntarily disclosure

H-4: Government ownership has a positive relationship with the degree of voluntarily disclosure

Literature on corporate governance states that corporate governance mechanisms may influence the degree of disclosure, especially the board of director composition. Firms can employ internal and external corporate governance mechanism which expected to mitigate agency issues and information asymmetry. Role of board independence represent one of the most important mechanism of corporate governance (Bhojraj and Sengupta, 2003; Sharma, 2004; Ajinkya et al, 2005). Outside directors who are independent from managers are assumed to encourage firms to disclose more information in order to reduce asymmetric information (Karagul and Yonet, 2009). Boards with higher proportion of outside directors are able to better monitor and control the opportunistic behavior of management (Jensen and Meckling, 1976; Rindova 1999). Chen and Janggi (2000) found a positive relationship between information disclosure and the proportion of independent directors. Independent directors have a significant role in promoting greater transparency in such firms.

Additionally, Karagul and Yonet (2009) provide evidence about the relationship between disclosure quality and board size, as larger board size reflects more monitoring which results in a higher transparency. Samaha, Khlif and Hussainey (2015) who examined the differences of disclosure index, the type of voluntary disclosure, the method of disclosure, the definitions of variables relating to corporate governance, the level of investor protection, and country geographic location, found that board size, board composition have a significant positive effect on voluntary disclosure.

As directors have a monitoring role, expertise in finance and accounting is essential for them in doing monitoring duties. Lanfronconi and Robertson (2002) argue that the collapse of Enron and WorldCom was perceived to be caused by the deficiency of financial knowledge of board members. Kesner and Johnson (1990) argue independent board members could give management with a better advice with their experiences, expertise and network. Therefore hypothesis 5, 6, and 7 of this study are proposed as:

H-5: Independent director has a positive relationship with the degree of voluntarily disclosure

H-6: Size of director has a positive relationship with the degree of voluntarily disclosure

H-7: Financial expertise of board members has a positive relationship with the degree of voluntarily disclosure.

RESEARCH METHOD

There are 130 firms selected as sample data for the two years period. Hence the number of observations is 260. In selecting the sample data, this study uses a purposive sampling method. The criteria used in selecting the sample are:

1. It should be listed on the Indonesian Capital Market in period of 2010-2011
2. It should report a positive earning
3. It should have annual reports available in the Indonesian Capital Market website
4. It should have a financial report ended on 31 December

The variables are measured as follows:

1. Voluntarily disclosure (DI) is measured using index which contains 76 items. Index is formulated using content analysis of the annual report. Any available item will be scored 1, while unavailable items will be scored 0. The items of voluntarily disclosure are based in the decree of the Indonesian Capital Market Oversight Body no. KEP-134/BL/2006.
2. Stock prices return (SPC) is calculated using the share returns around the announcement dates of the annual report. The study observes the increase/decrease of stock prices 5 days before the announcement and 5 days after the announcement of the annual report date.
3. Return on assets (ROA) is calculated as
4. Leverage (LEV) is measured as
5. Ownership concentration (BHOWN) is measured by the percentage of ownership held by block-holders.
6. Managerial ownership (MOWN) is measured by the percentage of ownership held by management
7. Government ownership (GOWN) is calculated using the percentage of government ownership
8. Independent director (ID) is measured by the ratio of independent director to total number of director
9. Size of director (SZB) is the log of total number of directors
10. Financial experience of board (BEXP) members is measured using the percentage of board members who have financial experience or education to the total number of board members
11. Size of firm is measured as the log of total assets

The multivariate model is formulated as:

$$DI = \beta\_1\ BHOWN + \beta\_2\ MOWN + \beta\_3\ GOWN + \beta\_4\ ID + \beta\_5\ SZB + \beta\_6\ BEXP + \beta\_7\ SZF + \beta\_8\ LEV + e$$

The variables of leverage and size of firms are included as control variables.

The univariate test is conducted using a Pearson correlation model to observe the economic consequences of extended disclosure.

DATA ANALYSIS AND DISCUSSION

The descriptive statistics results are presented in table 1 below.

TABLE 1 | Descriptive Statistics

		Minimum	Maximum	Mean	Std. Deviation
DI	260	0.32	0.87	0.64	0.09
BHOWN	260	0	0.98	0.33	0.3
MOWN	260	0	0.44	0.02	0.07
GOWN	260	0	0.9	0.05	0.17

Continued on next page

Table 1 continued

ID	260	0	0.8	0.38	0.15
SZB	260	2	10	3.82	1.27
BEXP	260	0	1	0.43	0.77
LEV	260	0.01	3.21	0.52	0.39
ROA	260	0	0.89	0.08	0.1
SPC	260	-9300	4630	-17.26	711.93
SZF	260	8.2	15.18	12.25	0.86

From table, some important findings can be concluded[B1] : (1) the sample firms relatively have good quality[B2] of disclosure shown by the average of disclosure index being 0.636; (2) management and government are not dominant shareholders[B3] , as on average they only take 2.6% and 4.8% of total ownership; (3) the board members who have financial experience or education are relatively dominant which on average 40% of the board members having financial background or expertise; (4) the number of independent directors takes a portion of almost 40% of total number of director; while on average the size of the board is 4 while the maximum number of members is 10; (5) during the observation period around the announcement date, on average the sample firms experienced negative returns as shown by the change of share return after 5 days after the announcement date compared to 17.26, during the five days before the announcement date.

Economic Consequences Test results

Univariate test using Pearson correlation model is employed to observe the economic consequences of voluntarily disclosure. From the results of the Pearson correlation model, it can be seen that the disclosure quality has no relationship with neither ROA nor share returns (SPC). The p-value of the correlation between ROA and DI is 0.247; while the p-value of the correlation between DI and the change of share return during the announcement date is 0.096. Hence, it can be concluded that the hypothesis 1 is rejected which indicates that in Indonesia setting, voluntarily disclosure has no a positive economic consequences for firms. The Pearson correlations results are presented in table 2.

TABLE 2 | Correlation Coefficients of DI, ROA and SPC

		DI	ROA	SPC
	Pearson Correlation	1	.072	.008
DI	Sig. (2-tailed)		.247	.904
		260	260	260
	Pearson Correlation	.072	1	-.021
ROA	Sig. (2-tailed)	.247		.733
		260	260	260
	Pearson Correlation	.008	-.021	1
SPC	Sig. (2-tailed)	.904	.733	
		260	260	260

The study investigates further regarding the relationship between performance measures and disclosure quality. The change of disclosure quality or index (DIC) is calculated to know whether the quality of disclosure has changed during the observation period and whether the increase or decrease of disclosure quality has a relationship with the share returns (SPC) and the change of ROA (ROACHG). The results of further investigation are presented in table 3.

From table 3, it can be seen that the increase of disclosure quality has a positive relationship with the increase of share returns and ROA. These results indicate that the improvement of disclosure quality has economic consequences which result in improvement on share return and ROA. This result is consistent with the research conducted by Bailey, Karolyi and Salva (2006) who provide the evidence of share return consequences of higher disclosure. Therefore, the improvement of disclosure is able to impress investors. These findings are interesting as in the correlation test it is found that voluntarily disclosure has no relationship with ROA nor stock returns which indicate that voluntarily disclosure has no positive economic consequences for firms. However, the positive change or improvement of voluntarily disclosure is found to have a positive economic consequences for firms. These two findings cannot be considered to be a contradiction. There are two factors which may explain these results. First, from signaling theory

TABLE 3 | Correlation Coefficients of SPC, DIC and ROACHG

		SPC	DIC	ROACHG
SPC	Pearson Correlation	1	.122*	.084
	Sig. (2-tailed)		.049	.176
		260	260	260
DIC	Pearson Correlation	.122*	1	.325**
	Sig. (2-tailed)	.049		,000
		260	260	260
ROACHG	Pearson Correlation	.084	.325**	1
	Sig. (2-tailed)	.176	.000	
		260	260	260

*. Correlation is significant at the 0.05 level (2-tailed).
**. Correlation is significant at the 0.01 level (2-tailed).

it can be assumed that firms with higher financial performance measured by ROA may convey more information to investors as they expect that investors will consider the improved financial performance is the result of good management practices and consequently the management also expect that the stock prices will soar. The test results also confirm this explanation as the stock returns of improved voluntarily disclosure firm increase. Second, investors are impressed with the improvement of quality of disclosure indicated by better voluntarily disclosure which may cause a positive impact on stock return.

Determinants Test Results

Multivariate test is employed to investigate the determinants of voluntary disclosure. The study investigates whether ownership and director characteristics induce firms to extend their disclosure. Three (3) ownership variables are tested to have relationships with voluntarily or extended disclosure quality. Three characteristics of the board are hypothesized to have positive relationships with disclosure quality which are ratio of independent director, size of board and financial expertise/education background of board. The multivariate test is conducted using the multivariate regression model. The results of the multivariate model are presented in table 4.

TABLE 4 | Regression Coefficients

Variables	Standardized Coefficients	t-value	p-value
MOWN	0.067	1.089	0.277
BHOWN	-0.032	-0.501	0.617
GOWN	0.151	2.371	0.019*
ID	-0.059	-0.941	0.348
SZB	0.201	3.111	0.002**
BEXP	-0.090	-1.515	0.131
LEV	-0.155	-2.601	0.010*
SZF	0.020	0.306	0.760

* Significant at the 0.05 level
**Significant at the 0.01 level

From table 4 it can be seen that the hypothesis 2 is rejected as the p-value of BHOWN is 0.617 which indicates that there is no relation between voluntarily disclosure and block-holder ownership. This result is not consistent with the result of Legenzova (2008) and Chau and Gray (2002) who found a negative relationship between ownership concentration and quality of disclosure. However, this result is consistent with the finding of Eng and Mak (2003) who did not find a relationship between disclosure and block-holder ownership. In Indonesia the block-holders are dominantly occupied by families and large institutions which have a direct access to private information. Thus it seems they have a lack of interest to increase disclosure as they are able to access information more. Higher ownership concentration seems to be an irrelevant variable in influencing quality of disclosure However, such situation is not suitable for the minority protection.

The p-value of MOWN is 0.277 which shows that the hypothesis 3 is rejected. The p-value more than 0.05 indicates that managerial ownership does not affect the quality of disclosure reflected by voluntarily disclosure. This finding contradicts the hypothesis mentioning that managerial ownership has appositive relationship with voluntarily disclosure degree. As mentioned before that managerial ownership is argued to have a role to reduce agency problems, as managers take dual roles which are owners and agents. Moreover, manager may attract a positive image from other shareholders by improving disclosure. Unfortunately, such hypothesis is not supported by the data, as the managerial ownership in Indonesia is very limited. The average managerial ownership as shown in table 1 is only 2% which consequently manager's shares are not sufficient enough to boast voluntarily disclosure.

However it is found that government ownership is one of the determinants of voluntarily disclosure, as the p-value of government ownership variable is 0.019 which means that the hypothesis 3 is accepted. It indicates that government is effective to force firms to disclose more information. This result is consistent with the evidence provided by Eng and Mak (2003), Wang et al, 2008), and Ferguson et al (2002). As state-owned firms, the management of firms have more responsibility to do transparency compared to private firms because the interest parties of state-owned firms are varies and the monitoring process is not only carried out by the formal monitoring bodies such as board of commissioners but also the monitoring will include public organization and society. Hence, such tight monitoring will induce firms to do voluntarily disclosure.

From table 4 it can be seen that from 3 hypotheses involve board composition and characteristics only size of board are found to affect positively on voluntarily disclosure. The p-value of size of board is 0.02; while the p-value of independent board and financial experience/background of board are 0.348 and 0.131 respectively. It seems that the individual characteristic of board members may not have a significant power to force firms to disclose more information, while the board as a group significantly influences firms to have a high degree of disclosure. Boards with larger memberships may have more power to control which results in higher disclosure enforcement. Of the control variables, lower leverage is related to higher extended disclosure. Again this finding is consistent with the evidence provided by Eng and Mak (2003).This paper's findings provide consistent evidence about the characteristics of extended disclosure and governance in emerging countries.

CONCLUSION

Although the concentrated ownership environment is assumed to result in lower disclosure, the disclosure quality still has positive economic consequences. The study has found that the disclosure improvement is related to the increase of share return and return on assets. The improvement of disclosure could be seen as a positive indicator of better transparency. The improved financial performance may also induce firms to disclose more information. Larger size of board and government ownership is related to higher extended disclosure. Block-holder and management ownership are found to be irrelevant in inducing disclosure quality. The individual characteristics of board members measured by independence and financial expertise do not determine the quality of disclosure. This study has contributed to the extension of the knowledge about the economic consequences of disclosure quality and the factors influencing disclosure quality in a highly concentrated ownership environment.

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