THE PRACTICE OF MANDATORY DISCLOSURE IN INDONESIA: DETERMINANTS AND IMPACT

Andian Ari Istiningrum[1]
[1]*Sekolah Tinggi Energi dan Mineral (STEM Akamigas), Indonesia*
Email: aa_istiningrum@yahoo.com

Abstract

The primary objective of this research is to determine the factors that have association with mandatory disclosure and stock return. This research investigated 47 manufacturing companies listed in the Indonesia Stock Exchange in 2012. Mandatory disclosure in this research used items required to be disclosed under IAS 16 and IAS 17. The data analysis used the path analysis by setting two structural equation models. The research proved a significantly positive association of company age with mandatory disclosure in contrast to company size and company profitability. Moreover, company size, company profitability, and mandatory disclosure have a significant positive association with stock return.

Keywords**:** Stock Return, Mandatory Disclosure, Company Age, Company Size, Profitability

INTRODUCTION

Globalization drives investors to make investment and capital allocation decisions to many foreign companies. It is necessary for the investors to diversify their portfolio risk by investing their funds to the international markets. This then leads to a significant increasing number of investors that hold both equity and debt securities of foreign companies (Kieso, Weygandt, & Warfield, 2011). Globalization also provides benefits for the companies to raise funds. The companies have a lot of flexibilities to choose the place to issue equity and debt securities.

To make a good investment decision, investors need a relevant and faithful financial statement. This can be achieved if financial statements among companies in the world can be compared. Therefore, it is important to have a high quality international accounting standards used by countries in the world. The International Accounting Standard Board (IASB), as an international standard-setting organization, issued International Financial Reporting Standards (IFRS) that are used by most foreign companies. IFRS now have been already implemented by more than 12.000 public companies in over 100 countries (Tomaszewski & Showerman, 2010).

Indonesia as a member of the Group of Twenty (G20) has an agreement to converge its financial accounting standards into IFRS. Indonesia government agrees to move to IFRS due to several benefits that can be gained from using international standards. The benefits include: (i) the enhancing comparability of financial statements, (ii) the increasing global investments, (iii) the enhancing transparency and full disclosure, (iv) the reduce cost of capital, and (v) the increasing efficiency in preparing financial statements (Setianto, 2014).

Started from 1 January 2012, all foreign and domestic companies listed in the Indonesia Stock Exchange must implement IFRS in preparing financial statements.

The full disclosure of information is deemed necessary for the investors to make capital allocation decision. However, managements basically have an intention to maximize profit for their benefits. Managements as the preparers of financial statements have greater opportunities to achieve personal benefit, such as bonuses and incentives. To reach their goal, managements sometimes hide the information for the investors (Alanezi & Albuloushi, 2010; Darrough, 1993; Healy & Palepu, 2001). This situation will adverse the investors because there will be information asymmetry between the investors and companies. Therefore, the regulatory agencies have to force the companies to disclose the information at the minimal level with the purpose to reduce the information asymmetry between managements and investors (Cooke, 1989).

The implementation of IFRS helps the investors to have relevant and faithful information. IFRS requires the companies to enhance transparency by disclosing more qualitative and quantitative information to the investors. The extent of disclosure asked by IFRS closes to the extent of full disclosure so the level of information asymmetry will decrease (Cahyati, 2011). Previous study proved a negative correlation between the companies disclosing more information and the level of earning management (Bachtiar, 2003). Thus, the more the information disclosed by the companies is, the less the earning management occurred in the company will be.

The earning managements have occurred in Indonesia. Most of companies whose managements conduct earning managements in Indonesia usually have a low level of compliance to mandatory disclosure. PT Kimia Farma Tbk, for example, overstated its net income for IDR 32.668 billion. The managements of PT Kimia Farma TBK did not disclose the correct amount of net income which was only IDR 99.594 billion (Syahrul, 2002). Another example is PT Petromine Energy-the subsidiary of PT Bakrie & Brothers Tbk. This company enclosed the information regarding the purchase of fuel for IDR 1.37 trillion to AKR Corporindo, so the amount of cost of goods sold was understated (Maharani & Budiasih, 2016).

All those examples raise the importance of mandatory disclosure. Mandatory disclosure refers to the disclosure required by certain regulatory agencies (Popova, Georgakepoulos, Sotiropoulos, & Vasileinu, 2013). Mandatory disclosure is all aspects and information that must be published by the companies as a result of the rule of law, the rule of capital market, or the rule of accounting standards (Adina & Ion, 2008). It is still an issue that must be considered by the accounting standard board in Indonesia. Previous research found that the compliance to mandatory disclosure in Indonesia did not meet the criteria 100% compliance asked by Badan Pengawas Pasar Modal-Lembaga Keuangan (Bapepam-Lk) or Indonesia Financial Institution and Capital Market Regulatory Agency. The level of mandatory disclosure is only 72% in the manufacturing sector (Utami, Suhardjanto, & Hartoko, 2012) and 69% in the service sector (Prawinandi Suhardjanto, & Triatmoko, 2012).

Mandatory disclosure significantly affects the effectiveness of capital market (Akhtaruddin, 2005) that can increase if the companies provide complete information to the investors. Mandatory disclosure helps the companies to market their shares, to increase their reputation, and to reduce agency costs (Meek, Roberts, & Grey, 1995). It also has a significant effect on company value (Popova et al., 2013). In their research, company value was measured by stock return and they found a positive and significant effect of mandatory disclosure on the stock return. Therefore, mandatory disclosure will help the investors to predict the stock return they will get later. That finding provided a significant benefit because stock return in Indonesia is difficult to predict due to the fluctuation of share prices. The stock return of manufacturing sector in Indonesia decreased 70.63% in 2008 and then increased significantly for 55.29% in 2009 (Istiningrum & Suryati, 2014). Since stock return is not stable, more researches on the antecedents of stock return, such as company size, company profitability, and company mandatory disclosure should be conducted. Even though there has been a research regarding the association between mandatory disclosure and stock return, more researches should be conducted to get more consistent result about the impact of mandatory disclosure on stock return. It is due to the fact that most researchers focus only on the association between voluntary disclosure and share price anticipation of earnings or stock return (Hussainey, Schleicher, & Walker, 2003; Healy, Hutton, & Palepu, 1999; Inchausti, 1997).

Due to the importance of mandatory disclosure, the companies are expected to provide relevant and faithful disclosure. However, the decision to provide or not provide this information depends on some factors. Many researchers found that company characteristics significantly affect the extent of mandatory disclosure provided by the companies. Those company characteristics include: company size (Akhtaruddin, 2005; Ali, Ahmed & Henry, 2004; Benjamin, An-Yeung, Kwok, & Lau, 1990; Cooke, 1989; Wallace, 1987; Wallace & Naser, 1995), managerial type (Wallace, 1987), listing status (Cooke, 1989; Glaum & Street, 2003), industrial type (Cooke, 1989; Nasser, 1998), leverage (Malone, Fries, & Jones, 1993; Latridis, 2008; Owusu-Ansah & Yeoh, 2005), audit quality (Ahmed & Nicholls, 1994; Glaum & Street, 2003; Nasser, 1998), liquidity (Wallace, Naser, & Mora, 1994), profitability (Ali et al., 2004; Latridis, 1998; Nasser, 1998; Owusu-Ansah, 1998), company age (Owusu-Ansah, 1998), familiarity with IFRS (Abd-Elsalam & Weetman, 2003), company growth (Latridis, 2008), and foreign ownership (Bova & Pereira, 2012). However, many researches provided a number of different results that some of the company characteristics had no effect on the extent of mandatory disclosure. Those characteristics are company age (Glaum & Street, 2003; Owusu-Ansah & Yeoh, 2005); company size (Akhtaruddin, 2005; Owusu-Ansah & Yeoh, 2005), and profitability (Latridis, 2008; Owusu-Ansah & Yeo, 2005). Therefore, there are some research gaps for the influence of company age, company size, and company profitability towards mandatory disclosure. It is necessary to conduct a research regarding those three characteristics to get more consistent knowledge whether those factors influence mandatory disclosure.

Based on the above background, this research was conducted with an aim to determine the association of company size, company age, and company profitability with mandatory disclosure and stock return. These general aims are then divided into three specific objectives as follows: (i) to determine whether company size, company age, and company profitability individually associates with mandatory disclosure, (ii) to determine whether company size, company profitability, and mandatory disclosure individually associates with stock return, and (iii) to determine whether company size, company age, and company profitability affect mandatory disclosure and as a consequence affect stock return.

LITERATURE REVIEW

Mandatory Disclosure

Globalization enhances the awareness of investors to demand relevant and faithful information. The companies should provide the information asked by the investor so that they can easily raise capital to fund their operation. Disclosure is the tool that can be used by managers to provide information to the investors. It can be classified into mandatory disclosure and voluntary disclosure. Mandatory disclosure is a company's obligation to disclose a minimum amount of information in corporate reports (Owusu-Ansah, 1998). Adina & Ion (2008) added that mandatory disclosure refers to the aspects and information which must be published as a consequence of the existence of some legal or statutory stipulations, capital markets, stock exchanges commissions or accounting authorities regulations. Voluntary disclosure, meanwhile, is a provision of additional information when mandatory disclosure is unable to provide a true picture about company's value and managers' performance (Popova et al., 2013).

Managers have an intention to maximize their wealth. To achieve that purpose, managers often make a decision to gain net income in a short period and ignore the long term activities that maximize the investors' wealth (Wolk & Tearney, 2001). This can be done by the managers because they have more information than the investor (Healy & Wahlen, 2000; Scott, 2000). As a result, the manager behavior will adverse the investors. Mandatory disclosure, therefore, is important to reduce the information asymmetry between managers and investors. Since the information gap between managers and investors decreases, the agency costs can be minimized.

The audited financial statement is a primary resource that can be used by companies to disclose compulsory information to the investors (Chou & Gray, 2010; Marston & Shrives, 1991). The items that are mandatory to be disclosed consist of a statement of financial position at the end of the period, a statement of comprehensive income for the period, a statement of changes in equity, a statement of cash flows, and notes. Notes include a summary of significant accounting policies and other explanatory information (Kieso et al., 2011). By disclosing those items, financial statement will be a high quality financial statement that can be used by the investors to understand and compare the information (Choi, 2005).

Stock Return

One of the purposes of this research is to determine the association of mandatory disclosure with stock return. Stock return is the income obtained from stock investment activities (Hartono, 2010). The government policies affect stock return (Samsul, 2008). One of the government policies is in terms of the requirement for the companies to have high compliance of mandatory disclosure. In addition, managers that have a good performance are more likely to disclose more complete information. By doing this, it is expected that markets will catch this good news and give a positive reaction characterized with the increase of stock prices (Inchausti, 1997). Disclosing more information also eliminates the information asymmetry between managers and investors so it is more likely that the stock price will increase. A previous research found a positive effect of the mandatory disclosure on the stock return (Popova et al., 2013). Based on the above arguments, the hypothesis is suggested as follows:

H_1 : Mandatory disclosure has a positive association with stock return.

Company Size

Company size is measured by the logarithm of total asset (Alanezi & Albuloushi, 2010; Bova & Pereira, 2012). Some big companies tend to disclose more information to the investors. Previous researches proved a positive association between company size and mandatory disclosure (Akhtaruddin, 2005; Barako, Hancock, & Izan, 2006; Cooke, 1989; Glaum & Street. 2003). The big companies have more human resources with accounting and finance backgrounds, so it is easier for them to provide mandatory disclosure and to produce a high quality financial statement. The variety in human resources also helps the big companies to manage the costs, compete with other companies, and raise fund. All these positive aspects will be disclosed by the big companies in their financial statement (Ahmed & Nicholls, 1994; Naser, 1998). The costs of providing the detailed information and the risks of competitive disadvantages are lower than the benefits the big companies gain (Arcay & Vazquez, 2005). Mandatory disclosure enables big companies to use the detailed information to make investment in acquiring fixed asset and in creating innovation (Ball & Foster's, 1984). In addition, the benefits gained by the big companies will be a threat for the small companies (Depoers, 2000). Compared to the small companies, the big companies tend to have more strategic position in the capital market (Singhvy & Desai, 1971). Based on the above arguments, the hypothesis is suggested as follows:

H_{2a} : company size has a positive association with mandatory disclosure.

Company size is a significant factor affecting stock return (Banz, 1981). Previous research found that company size had a positive association with stock return (Daniel & Titman, 1997; Farma, Kenneth, & French, 1995; Sugiarto, 2011; Widyastuti, 2007). Small companies tend to work inefficiently and ineffectively. As a consequence, the stock trading frequency of the small companies is not as good as the one in the big companies (Widyastuti, 2007). In addition, small companies tend to have stocks with low capitalization value. They only have

marginal capabilities so their stock price tends to be more sensitive to the economic change. Moreover, small companies face many difficulties to grow in an unhealthy economic condition (Sugiarto, 2011). Based on the above arguments, the hypothesis is suggested as follows:

H_{2b} : company size has a positive association with stock return

Company Age

Company age is measured by the length of the companies listed on the stock market (Alanezi & Albuloushi, 2010). The mature companies have more experiences in providing a high quality financial statement since they have already had knowledge regarding the type of information needed by the investors to make some capital allocation decisions. Thus, the longer the companies listed on the stock market, the more experiences the companies gain to meet the information asked by the investors, and the lower the costs to process and produce this kind of information (Owusu-Ansah, 1998). In addition, the mature companies are encouraged to provide complete information due to two reasons: (i) the need to have more investors, and (ii) the need to maintain reputation and credibility (Popova, et al., 2013). In contrast to the mature companies, the young companies often meet many obstacles in their process to provide complete information to the investors. Those obstacles include: (i) The lack of competitive advantages so they tend to restrict the provision of information, (ii) The high costs to get, process, and produce complete information, and (iii) The lack of track record so this creates difficulties for them to rely on public opinion (Owusu-Ansah, 1998). Based on the above arguments, the hypothesis is suggested as follows:

H_3 : Company age has a positive association with mandatory disclosure

Company Profitability

Company profitability is one of company characteristics playing an important role for the investors because the profitability shows the company performance (Alanezi & Albuloushi, 2010). Company profitability can be measured by return on equity which is the net income divided by total equity (Bova & Pereira, 2012). The high profitability generated by the companies will encourage managers to disclose more information because the managers expect to get high bonuses by disclosing more information (Inchausti, 1997). Moreover, companies with high profitability tend to provide complete information to show to the investors that they have good performances. Providing complete information makes the companies with high profitability easy to get fund from the investors (Kurniawan, 2013). Based on the above arguments, the hypothesis is suggested as follows:

H_{4a} : Company profitability has a positive association with mandatory disclosure.

Profitability is also included as the technique in fundamental analysis that can be used to predict the stock return. Most investors use the profitability ratio as the base to make a capital allocation decision. The companies that have high profitability means that those companies

perform well during the operation and their stock prices increase. As a result, stock return will increase (Kusumo, 2011). Previous research found a positive association of profitability towards stock return (Octora, Salim, & Petrolina, 2003; Dewi, 2008; Nugraha, 2005). The higher the profitability of the company, the higher stock returns that will be received by the investors. Based on the above arguments, the hypothesis is suggested as follows:

H_{4b} : Company profitability has a positive association with stock return.

METHODOLOGY

Research Model

The research model to test all hypotheses in this research is shown in Figure 1.

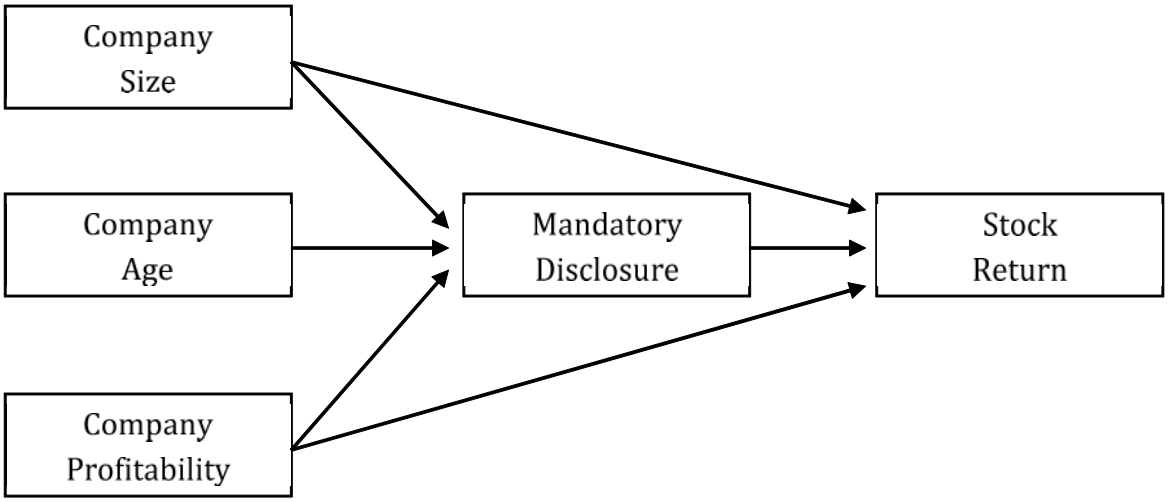

Figure 1. Research Model

Mandatory disclosure in this research means items required by IAS 16 (fixed assed) and IAS 17 (leasing) that must be published by the companies. IAS 16 was used in this research because of the high proportion of fixed assets used in the manufacture companies; whereas IAS 17 was used for being the standard that the manufacture companies had the lowest level of compliance (Utami et al., 2012). Table 1 shows the number of items in IAS 16 and IAS 17 that must be disclosed by the companies.

Table 1. Items of Disclosure in IAS 16 and IAS 17

IAS	Title	Number of Items
IAS 16	Fixed Assets	28
IAS 17	Leasing	21

Research Variables

Table 2 shows the type of variables and the operational definition of the variables used in this research.

Population and Sample

The population used in this research was manufacture companies as listed in the Indonesia Stock Exchange in 2012. The reasons why manufacture companies were chosen as the research population included: (i) the manufacture companies tend to disclose more information to the investors, and (ii) the manufacture companies need more funds to acquire fixed assets (Utami et al., 2012). Of 129 companies as the population, 47 companies were chosen as the sample of this research. The criteria used to choose the sample was (i) the company published financial statement for the year 2012, (ii) the company distributed cash dividend for the year 2012, and (iii) the company published data related to the research variables for the year 2012. The data was gathered from the 2012 financial statement published by each company. The reason of choosing the year 2012 as a research period is that the year 2012 is the first year of the IFRS implementation in Indonesia. It was interesting to determine the level of compliance to mandatory disclosure in the first year of the implementation of international standards.

Table 2. Research Variables

Variables	Type of Variable	Operational Definition
Stock Return	Endogenous Variable	Stock Return $= \frac{P_t - P_{t-1} + D_t}{P_{t-1}}$ while: P_t = current stock price P_{t-1} = previous stock price D_t = current cash dividend (Hartono, 2010; Popova et al., 2013)
Mandatory Disclosure	Endogenous Variable	$TI = \frac{TD}{M} = \frac{\sum_1^m d_i}{\sum_1^n d_i}$ while: TI = total disclosure index TD = total disclosure score M = maximum disclosure score of each company d= disclosure item i m = actual number of relevant disclosure items (m≤n) n = number of items expected to be disclosed (Aljifri, 2008)
Company Size	Exogenous Variable	logarithm of total asset (Alanezi & Albuloushi, 2010; Bova & Pereira, 2012)
Company Age	Exogenous Variable	the length of the companies listed on the stock market (Alanezi & Albuloushi, 2010)
Company Profitability	Exogenous Variable	Net Income / Total Equity (Bova & Pereira, 2012)

Data Analysis

The data analysis used path analysis and IBM Statistics SPSS 19. Path analysis requires that data must meet these requirements: there is neither multicollinearity between independent variables nor heteroscedasticity, and data should meet normality and linearity assumptions. Afterwards, the model for path analysis was set. There were two structural equation models set based upon Sunyoto (2011) and Sarwono (2007) models as shown below:

$$\text{Disc} = \beta\text{Disc Size} + \beta\text{Disc Age} + \beta\text{Disc Profit} + \varepsilon_1$$

$$\text{Return} = \beta\text{Return Size} + \beta\text{Return Disc} + \beta\text{Return Profit} + \varepsilon_2$$

with these additional information:

Size = Company Size
Age = Company Age
Profit = Company Profitability
Disc = Mandatory Disclosure
Return = Stock Return

The first structural equation model was developed to test H_{2a}, H_3, and H_{4a} regarding whether company size, company age, and company profitability individually had a positive association with mandatory disclosure. The second equation model was used to test H_1, H_{2b}, and H_{4b} regarding whether company size, mandatory disclosure, and company profitability individually had a positive association with stock return. The t-test was used to prove whether the research hypothesis was accepted or rejected. The research hypothesis is accepted if the value of significance is less than the value of alpha 0.05 (Sarwono 2007; Sunyoto 2011). Finally, the test to prove whether mandatory disclosure was an intervening variable was conducted using Sobel Test, a test to determine whether a mediator functions as an intervening variable between independent variable and dependent variable (Preacher & Leonardelli, 2006). The research hypothesis is accepted if the *t* value > *t* table = 1,65 (Ghozali, 2011). The t-value was calculated by using formulae:

$$\text{sab} = \sqrt{b^2sa^2 + a^2sb^2 + sa^2sb^2}\ ; \quad t \text{ value} = \text{ab/sab}$$

with these additional information:

a = raw (unstandardized regression coefficient for the association between independent variable and mediator
b = raw coefficient for the association between the mediator and the dependant variable
sa = standard error of a
sb = standard error of b
sab = error standard for indirect influence (Ghozali, 2011)

RESULTS AND DISCUSSION

Descriptive Statistics

Table 3 provides the information regarding the result of descriptive statistics for each variable. It can be seen from Table 3 that the mean of mandatory disclosure in manufacturing

companies is 62.40%. This means that the average of manufacture companies in the first year implementation of IFRS did not meet the criterion asked by Bapepam-Lk.

Table 3. Descriptive Statistics

Variable	N	Minimum	Maximum	Mean	Deviation Standard
Return	47	-0.90	3.55	0.1117	0.69568
Disclosure	47	0.44	0.85	0.6240	0.10666
Size	47	5.11	8.33	6.5713	0.72162
Age	47	2.00	36.00	20.5532	6.98697
Profitability	47	0.00	0.44	0.1621	0.10814

Assumption Test

The assumption tests were conducted to both the first and the second structural equation model. The first test was normality test that was conducted by using Kolmogorov-Smirnov Test. The result of normality test is shown in Table 4. It can be seen from Table 4 that the significance values for the first and the second structural equation model are higher than 0.05. Thus, normality assumptions are met.

Table 4. The Result of Normality Test

Unstandardized Residual	Asymp. Sig (2-tailed)
The 1st structural equation model	0.649
The 2nd structural equation model	0.241

The second test is heteroscedasticity test. The test was conducted using Park Test. Table 5 shows the result of heteroscedasticity test. As shown in Table 5, no heteroscedasticity for all structural equation models since each significance value is higher than 0.05

Table 5. The Result of Heteroscedasticity Test

LnU^2i for each Structural Equation Models	Independent Variable	Significance
The 1st Structural Equation Model	Size	0.334
	Age	0.608
	Profit	0.426
The 2nd Structural Equation Model	Size	0.329
	Profit	0.076
	Disclosure	0.538

The third test is multicollinearity test. Table 6 shows the result of multicollinearity test. The tolerance values of each independent value for both the first and the second structural equation model were found higher than 0.10. In addition, the VIF value of each

independent value for both the first and the second structural equation model were less than 10. Therefore, it can be concluded that there are multicollinearity among independent variables in the first structural equation model and the second structural equation model.

Table 6. The Result of Multicollinearity Test

.	Independent Variable	Tolerance	VIF
The 1st structural equation model	Size	0.997	1.003
	Age	0.927	1.078
	Profit	0.925	1.081
The 2nd structural equation model	Size	0.992	1.008
	Disc	0.964	1.037
	Profit	0.968	1.033

The last assumption test is linearity test conducted using Lagrange Multiplier Test. Table 7 shows the R^2 value for $Res_1 = b_0 + b_1\ size^2 + b_2\ age^2 + b_3\ profit^2$ and $Res_2 = b_0 + b_1\ size^2 + b_2\ disc^2 + b_3\ profit^2$. For the first structural equation model, the $R^2 = 0.003$ with the amount of data was 47, so the value of $x^2 = 47 \times 0.003 = 0.141$. This x^2 value was compared with the x^2 table at d_f 40 and α 0.05. The value of x^2 table was 55.76. Since the x^2 was less than the x^2 table, the linearity assumption for the first structural equation model was met. Then, for the second structural equation model, the $R^2 = 0.005$ with the amount of data was 47, so the value of $x^2 = 47 \times 0.005 = 0.235$. This x^2 value was compared with the x^2 table at d_f 40 and α 0.05. The value of x^2 table was 55.76. Since the x^2 was less than the x^2 table, the linearity assumption for the second structural equation model was met as well.

Table 7: Result of Linearity Test

Regression Model with Lagrange Multiplier	R^2
$Res_1 = b_0 + b_1\ size^2 + b_2\ age^2 + b_3\ profit^2$	0.003
$Res_2 = b_0 + b_1\ size^2 + b_2\ disc^2 + b_3\ profit^2$	0.005

Hypothesis Test: The First Structural Equation Model

The first structural equation model was used to test H_{2a}, H_3, and H_{4a} regarding whether company size, company age, and company profitability individually had a positive association with mandatory disclosure. Table 8 provides information regarding the result of data processing for the first structural equation model.

The first structural equation model that can be set from Table 8 is:

$$Disc = 0.005\ Size + 0.231\ Age + 0.043\ Profit + 0.939$$

It can be shown from Table 8 that the beta value for size variable was 0.005 indicating that 0.5% variation in companies' mandatory disclosure was explained by the variation in the companies' size. However, this effect was not significant since the significance value was 0.963 > 0.05. Therefore, the H_{2a} was rejected meaning that the company size has no

association with mandatory disclosure. The result supports the research by Alanezi & Albuloushi (2010), Aljifri (2008), Glaum & Street (2003), Owusu-Ansah & Yeo (2005), and Popova et al. (2013). The big companies usually have more human resources with accounting and finance qualifications. However, those human resources may not ready to face the convergence of IFRS in the first year of IFRS implementation in Indonesia. IFRS requires more information to be disclosed in the financial statement (Cahyati, 2011). IAS 16 regulates that it is better for the companies to value their fixed assets by using fair value rather than historical cost. This is due to the reason that fair value reflects the truth value of fixed assets in the date of financial statement. It is necessary for the companies to have human resources that have an ability to determine the fair value of the fixed assets. Having such kind of human resources is a complex task for the companies due to the high costs to train the employees or to rent the appraisals (Cahyati, 2011). In addition, the factor that influences Indonesia's companies to provide more disclosure in the beginning year of IFRS implementation was the time (Silviana, 2014). The human resources need more time to understand the IFRS since its paradigm is different from the previous accounting standard used in Indonesia (US GAAP). The IFRS is a principle-based standard, whereas US GAAP is a rule-based standard. The principle-based standard enables the companies to provide more relevant information that closes to the condition of the companies. However, this standard requires more professional judgments to gather the more relevant information. The companies' accountants need more time to understand and provide professional judgments, so they can provide more disclosure regarding the fixed asset controlled by the companies (Silviana, 2014).

Table 8. Result of the First Path Analysis

Variables	Standardized Coefficients (Beta)	t	Sig.	Explanation
Size	0.005	0.047	0.963	Not Significant
Age	0.231	2.177	0.032	Significant*
Profit	0.043	0.400	0.690	Not Significant
R R Square *α	= 0.246 = 0.061 = 0.05			

Table 8 reveals that the beta value for the age variable was 0.231 indicating that 23.1% variation in companies' mandatory disclosure was explained by the variation in the companies' ages. The effect was significant since the significance value was 0.031 < 0.05. Therefore, H_3 was accepted indicating a positive association of company age with mandatory disclosure. The longer the companies are listed in the stock exchange, the more complete the mandatory disclosure provided to the investors will be. The result supports the research from Popova et al. (2013) and Owusu-Ansah (1998). The result can be explained by learning curve from Owusu-Ansah (1998) in Popova et al. (2013) illustrating that the mature companies get

used to mandatory disclosure and the level of compliance to mandatory disclosure increases over time.

Table 8 also shows that the beta value of profitability variable was 0.043 showing that 4.3% variation in the companies' mandatory disclosure is explained by the variation in the companies' profitability. However, this effect was insignificant since the significance value was 0.690 > 0.05. Therefore, H_{4a} was rejected indicating that the company profitability has no association with mandatory disclosure. The result is consistent with the research from Akhtaruddin (2005), Aljifri (2008), Latridis (2008), Owusu-Ansah & Yeoh (2005), and Popova et al. (2013). The implementation of corporate governance in Indonesia requires the companies to be more transparent and disclose more information in their financial statement. There is a tendency in Indonesia that the companies with high and low profitability attempt to apply good governance by following the mandatory disclosure regulated in the accounting standard (Mintara, 2008). In addition, both companies with high and low profitability tend to provide more information. The high profitability companies are likely to disclose complete information because they want their good performance to be shown to public so that it will be easier to get fund from the investors (Kurniawan, 2013). The low profitability companies also attempt to provide more information because they will get penalized if they hide their poor performance (Popova et al., 2013).

Hypothesis Test: The Second Structural Equation Model

The second structural equation model was used to test H_1, H_{2b}, and H_{4b} regarding whether mandatory disclosure, company size, and company profitability individually had a positive association with stock return. Table 9 provides information regarding the result of data processing for the second structural equation model.

Table 9: The Result of the Second Path Analysis

Variables	Standardized Coefficients (Beta)	t	Sig.	Explanation
Size	0.272	2.065	0.045	Significant*
Disc	0.237	1.769	0.084	Significant**
Profit	0.425	3.180	0.003	Significant*
R R Square *α **α	= 0.508 = 0.258 = 0.05 = 0.10			

The second structural equation model that can be set from Table 9 is:

$$\text{Return} = 0.272\ \text{Size} + 0.237\ \text{Disc} + 0.425\ \text{Profit} + 0.742$$

As shown in Table 9, the beta value for size variable was 0.272 indicating 27.2% variation in companies' stock return was explained by the variation in the companies' size. This effect was significant since the significance value was 0.045< 0.05. Therefore, the H_{2b} was accepted indicating a positive association of the company size with stock return. The

more assets controlled by the company, the higher the stock return that will be gained by the investors. The result supports previous research from Daniel & Titman (1997), Farma et al. (1995), Sugiarto (2011), and Widyastuti (2007). The big companies usually have more resources to conduct an operation efficiently and effectively. This condition raises the stock prices and increases the stock return.

Table 9 shows that the beta value for the disclosure variable was 0.237 indicating that 23.7% variation in companies' stock return was explained by the variation in the companies' mandatory disclosure. The effect was significant since the significance value was 0.084 < 0,10. Therefore, H_1 was accepted showing that the company mandatory disclosure has a positive association with stock return. The higher the level of compliance to mandatory disclosure, the higher the stock returns will be gained by the investors. The result is consistent with the research from Healy et al. (1999) and Popova et al. (2013). The information asymmetry between investors and managers reduces due to the broad mandatory disclosure provided by the companies. This will maintain the reputation of the companies, so their stock prices increase followed by the increase of the stock return.

Table 9 also reveals that the beta value of profitability variable was 0.425 showing that 42.5% variation in the companies' stock return was explained by the variation in the companies' profitability. This effect was significant since the significance value was 0.003 < 0.05. Therefore, H_{4b} was accepted indicating that the company profitability has a positive association with mandatory disclosure. The higher the profitability of the companies, the higher the stock returns will be gained by the investors. The result is consistent with previous research from Octora et al. (2003), Dewi (2008), and Nugraha (2005). The stock prices of the companies having high profitability tend to increase due to the good performance showed by the companies. In addition, companies with high profitability often distribute the dividend to the stockholders. As a result, the stock return increases

Sobel Test

The next test is to determine whether mandatory disclosure is a mediator: (i) between company size and stock return, (ii) between company age and stock return, and (iii) company profitability and stock return. Since H_{2a} was rejected, mandatory disclosure was not a mediator between company size and stock return. In addition, mandatory disclosure was not a mediator between company profitability and stock return because H_{4a} was rejected. Therefore, the only hypothesis that can be set is:

H_5 = company age has the indirect association with stock return through mandatory disclosure.

Figure 2 shows that the total indirect effect between company age and stock return through mandatory disclosure was 23.1% + 23.7% = 46.8 %. Here, Sobel Test was conducted to determine whether this effect was significant. Sobel Test was appropriate to be used in this research since normality assumption for two structural equation models were already met as shown in Table 4. Table 10 shows the result of Sobel Test. The t-statistics was 0.9264

< t-table 1.96, so H_5 was rejected. This meant that mandatory disclosure was not a mediator between company age and stock return.

Table 10. Result of Sobel Test

Input	Sobel Test
a = 0.003	t statistic = 0.92640865
b = 0.937	Std. error = 0.0030343
s_a = 0.001	p-value = 0.35423365
s_b = 0.962	

The complete result of path analysis is shown at Figure 2.

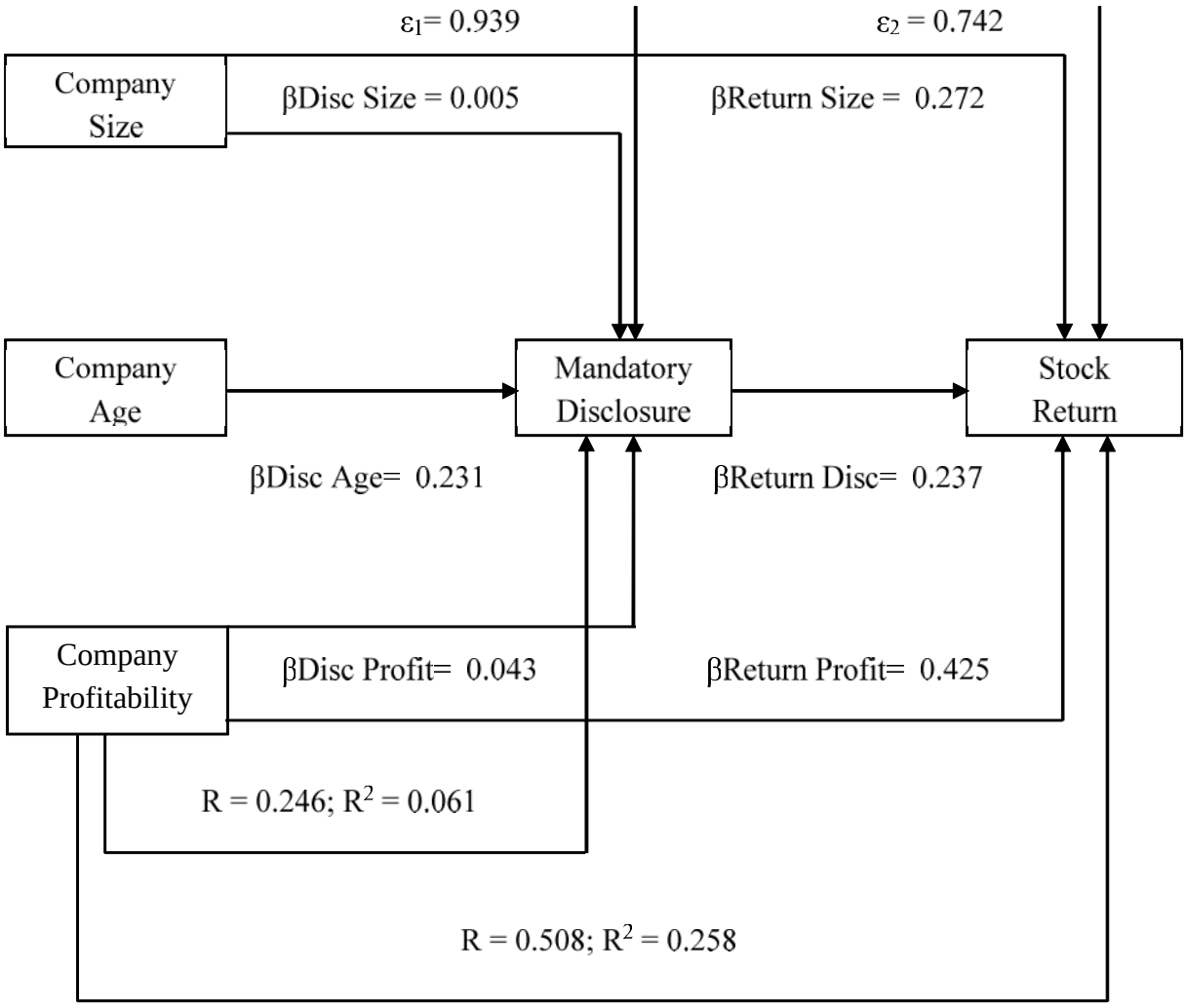

Figure 2. Result of Path Analysis – Two Structural Equation Model

CONCLUSION

Based on the research results, it was found that mandatory disclosure did not function as a mediator between independent variables including company size, company age, and company profitability and a dependent variable including stock return. It did because there was no association between company size and company profitability with mandatory

disclosure. Sobel Test also provided evidence that there was no indirect association between company age and stock return through mandatory disclosure, even though the statistical results proved that company age was significantly associated with mandatory disclosure and mandatory disclosure was significantly associated with stock return. Since mandatory disclosure directly affects stock return, it is necessary for the companies to disclose information as regulated by accounting standards in Indonesia. Then, company age is a significant factor affecting mandatory disclosure, so the investors can recognize the mature manufacturing companies listed at Indonesia Stock Exchange as the place to find complete and transparent information. In addition, since company size and company profitability directly have a positive association with stock return, the investors can recognize the big manufacturing companies and the high profitability manufacturing companies as the places to invest.

Some limitations are found in this research including: (i) the research was only conducted for one period of financial statements, so there is a possibility that the results do not reflect the level of compliance to mandatory disclosure in the implementation of IFRS. It is advised to lengthen a research period in the next research to get the more precise result regarding mandatory disclosure in IFRS implementation era, (ii) the number of samples used in this research was only 47 manufacturing companies, so there is a possibility that the results do not reflect the condition in manufacturing companies. It is advisable to increase the number of samples and to expand the scope of research to other industries, (iii) the subjectivity of providing score to determine whether the companies disclose the information or not is a matter of concern. Therefore, it is necessary to work together with the practitioners such as auditors to minimize the subjectivities.

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