The determinants and impact of mandatory disclosure in Indonesian manufacturing companies

Andian Ari Istiningrum[1]

[1] Energy and Mineral Polytechnics, Gadjah Mada Street No 38, Cepu, Blora, Central Java, Indonesia

A R T I C L E   I N F O

A B S T R A C T

The primary objective of this research is to determine the factors that have an association with mandatory disclosure and stock return. This research investigated 47 manufacturing companies listed on 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 Sobel Test was used to determine whether mandatory disclosure functions as a mediator. The research proved a significantly positive association of company age with the mandatory disclosure in contrast to company size and company profitability. This implies that the investors are able to find complete and transparent information in the financial statement of mature manufacturing companies. Moreover, company size, company profitability, and mandatory disclosure have a significant positive association with stock return. This implies that it is necessary for the companies to disclose information as required by the accounting standard in Indonesia and the investors may recognize the big and the high profitability manufacturing companies as the places to invest. However, mandatory disclosure does not function as a mediator between company size, company age, company profitability and stock return.

A B S T R A K

Penelitian ini bertujuan untuk mengetahui faktor-faktor yang mempengaruhi pengungkapan wajib dan return saham. Penelitian menggunakan sampel 47 perusahaan manufaktur yang terdaftar di Bursa Efek Indonesia tahun 2012. Pengungkapan wajib pada penelitian ini merupakan pengungkapan item-item yang diwajibkan pada IAS 16 dan IAS 17. Analisis data menggunakan analisis jalur dengan dua persamaan struktural. Sobel Test digunakan untuk menentukan apakah pengungkapan wajib berfungsi sebagai variabel perantara. Penelitian menunjukkan bahwa umur perusahaan berpengaruh positif signifikan terhadap pengungkapan wajib, sedangkan ukuran perusahaan dan profitabilitas tidak berpengaruh terhadap pengungkapan wajib. Selain itu, ukuran perusahaan, profitabilitas, dan pengungkapan wajib berpengaruh positif signifikan terhadap retur saham. Oleh karena itu, perusahaan perlu mengungkapkan informasi yang diwajibkan dalam Standar Akuntansi Keuangan. Investor perlu mempertimbangkan perusahaan besar dan perusahaan dengan profit tinggi sebagai tempat investasi. Meskipun demikian, pengungkapan wajib tidak berfungsi sebagai variabel perantara antara ukuran perusahaan, umur perusahaan, dan profitabilitas terhadap retur saham.

1. INTRODUCTION

Globalization drives investors to invest and allocate their capital in many foreign companies. It is necessary for them to diversify their portfolio risk by investing their funds into the international markets. This can lead to a significantly increasing number of investors that hold both equity and debt securities of foreign companies (Kieso, Weygandt & Warfield 2011, p. 4). 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.

* Corresponding author, email address: [1] andian.istiningrum@esdm.go.id

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). The convergence processes are divided into three phases including: (i) adoption phase from 2008 to 2010, (ii) final preparation phase in 2011, and (iii) implementation phase in 2012. Started from 1 January 2012, all foreign and domestic companies listed on the Indonesia Stock Exchange must implement IFRS in preparing financial statements.

A financial statement is a tool for companies to provide information for the investors. It should help investors to assess the amounts, timing, and uncertainty of prospective cash inflows from dividends or interest, and the proceeds from the sale, redemption, or maturity of securities or loans (Kieso, Weygandt & Warfield 2011, p. 9). Companies should therefore enhance transparency and disclose the relevant and faithful information to the investors. By doing this, a financial statement will have high quality to ease the investors to understand and compare information provided in the financial statement.

The full disclosure of information is deemed necessary for the investors to make the capital allocation decision. However, managements basically have the 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 & Albu-

loushi 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 closed to the extent of full disclosure so the level of information asymmetry will decrease (Cahyati, 2011). The 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 the companies whose managements conduct earning managements in Indonesia usually have a low level of compliance with 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 disclosure. Disclosure is defined as the communication of economic information, financial and non-financial information, quantitative and qualitative information regarding the performance and position of the companies to the investors (Owusu-Ansah 1998; Wallace & Naser 1995). Disclosure is the means used by management of the companies to provide information to the investors. It can be classified into mandatory disclosure and voluntary disclosure. Mandatory disclosure refers to the disclosure required by certain regulatory agencies, while voluntary disclosure is the additional information, outside the scope of the mandatory disclosure, provided by the companies (Popova et al. 2013). The investors should have more attention when they find that mandatory disclosure provid-

ed by the company is not relevant and management provides a lot of voluntary disclosure. It is due to the fact that voluntary disclosure is more a reflection of managements' interest in making policy (Akhtaruddin 2005).

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 the 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 the 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, the more researches should be conducted to get more consistent result about the impact of mandatory disclosure on stock return. It is due 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 the mandatory disclosure provided by the companies. Those company characteristics include: company size (Akhtaruddin 2005; Ali, Ahmed & Henry 2004; Benjamin et al. 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, Ahmed & Henry 2004; Latridis 2008; 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 types of 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.

2. THEORETICAL FRAMEWORK AND HYPOTHESES

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). The voluntary disclosure is also defined as an additional offer of information in relation to different national regulations or international referential of business reporting, that is, something not compulsory by the law, but voluntary through the behavior regarding publication (Adina & Ion 2008).

Managers have the 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, Weygandt & Warfield 2011, p. 213). 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 complete information. By doing this, it is expected that markets will catch this good news and give a positive reaction characterized by 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 the 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 of 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). The Mandatory disclosure enables big companies to use the detailed information to make the 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 the 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 the 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, the 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.

3. RESEARCH METHOD
Research Model
The research model to test all hypotheses in this research is shown in Figure 1. Mandatory disclosure in this research means items required by IAS 16 (fixed asset) 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, Suhardjanto & Hartoko 2012). As a principle based standard, IAS 16 requires the companies to value fixed asset based on its fair value at the date of the financial statements. This requirement is considered as a challenge for Indonesian manufacturing companies since they have usually applied historical costs to value the fixed asset. Another challenge to be faced by Indonesian manufacturing companies is in implementing IAS 17. IAS 17 does not provide a clear cut-off to be used as a base to classify the leasing of fixed asset as a finance leasing or an operating leasing. 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

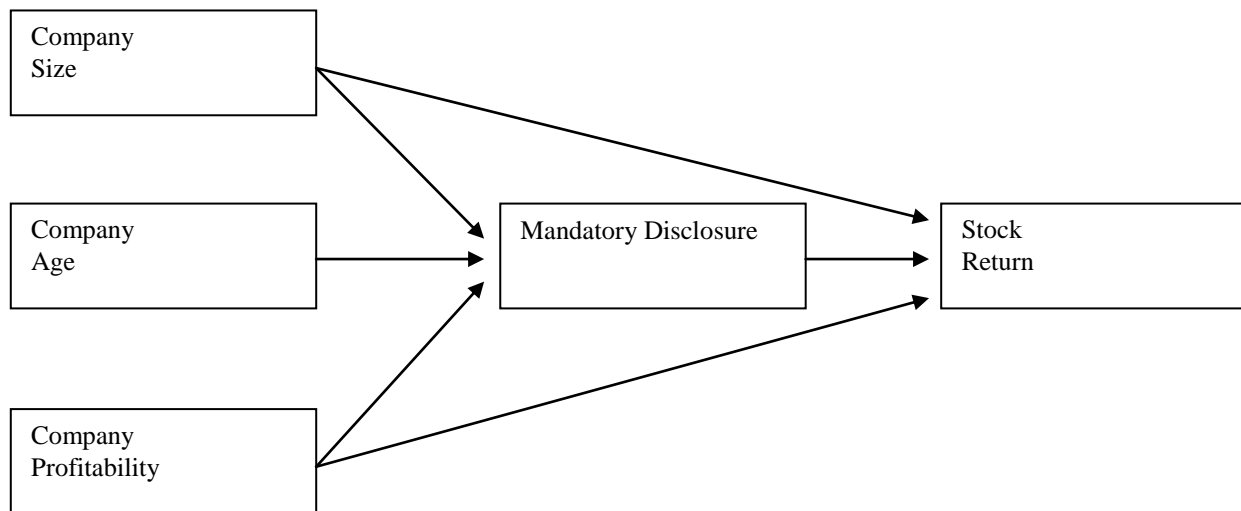| IAS	Title	Number of Items
IAS 16	Fixed Assets	28
IAS 17	Leasing	21

Figure 1
Research Model

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 on 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, Suhardjanto & Hartoko 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 the financial statement for the year 2012, (ii) the company distributed the 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 for choosing the year 2012 as the 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.

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 heterocedasticity, and data should meet normality and linearity assumptions. Afterward, 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:

Disc = βDisc Size + βDisc Age + βDisc Profit+ ε_1
Return = βReturn Size + βReturn Disc + βReturn Profit + ε_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, p. 105; 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).

Table 2
Research Variables

Variables	Type of Variable	Operational Definition
Stock Return	Endogenous Variable	$Stock\ Return = \dfrac{P_t - P_{t-1} + D_t}{P_{t-1}}$
		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	$TI = \dfrac{TD}{M} = \dfrac{\sum_1^m d_i}{\sum_1^n d_i}$
		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)

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

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 is no multicollinearity among independent variables in the first structural equation model and the second structural equation model.

Table 5
The Result of Heterocedasticity Test

LnU²i 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

Table 6
The Result of Multicollinearity Test

Structural Equation Model	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 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 on the date of the 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 most 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	= 0.246			
R Square	= 0.061			
*α	= 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 on 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 by 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. The second structural equation model is: Return = 0.272 Size + 0.237 Disc + 0.425 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, Kenneth & French (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

34

disclosure has a positive association with stock return. The higher the level of compliance with mandatory disclosure, the higher the stock returns will be gained by the investors. The result is consistent with the research from Healy, Hutton & Palepu (1999) and Popova et al. (2013). The infor- mation 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
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	= 0.508			
R Square	= 0.258			
*α	= 0.05			
**α	= 0.10			

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, Salim & Petrolina (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.
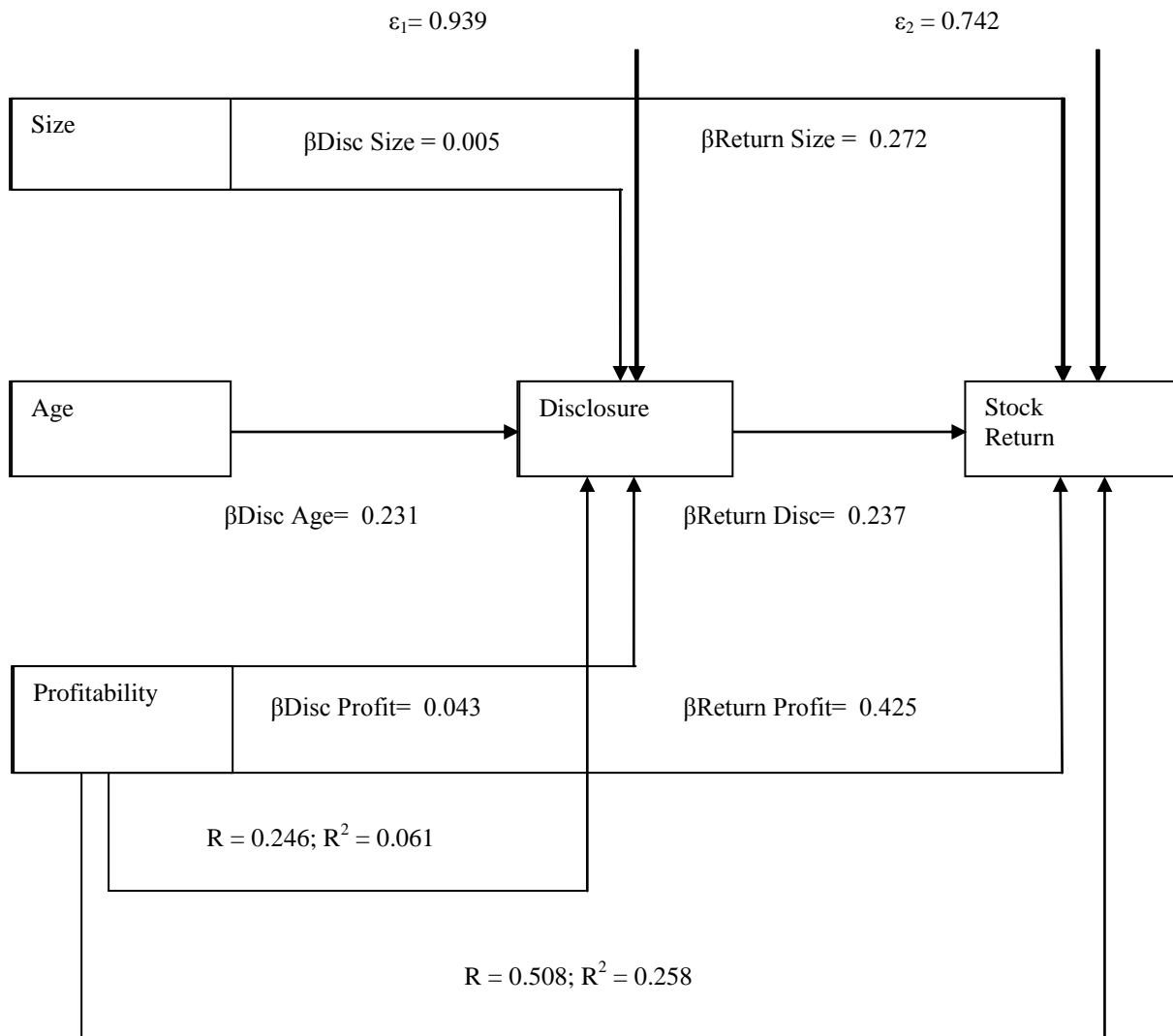
Sobel Test
The complete result of path analysis is shown at figure 2. As shown is Figure 2, mandatory disclosure is a mediator between: (i) company size and stock return, (ii) company age and stock return, and (iii) company profitability and stock return. Since H_{2a} was rejected, mandatory disclosure 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 the 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.

Figures 2
Result of Path Analysis – Two Structural Equation Model

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	

5. CONCLUSION, IMPLICATION, SUGGESTION, AND LIMITATIONS

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. The Sobel Test also provided some 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 informations 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 on 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 the 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 the 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.

REFERENCES

Abd Elsalam, OH & Weetman, P 2003, 'Introducing international accounting standards to an emerging capital market: relative familiarity and language effect in Egypt', *Journal of International Accounting, Auditing, and Taxation*, vol. 12, no. 1, pp. 63-84.

Adina, P & Ion, P 2008, 'Aspect regarding corporate mandatory and voluntary disclosure'. *Annals of the University of Oradea: Economic Science*, vol. 3, no. 1, pp. 1407-1411.

Ahmed, K. & Nicholls, D 1994, 'The impact of non-financial characteristics on mandatory disclosure compliance in developing countries: the case of Bangladesh', *International Journal of Accounting*, vol. 19, no. 3, pp. 62-77.

Akhtaruddin, M 2005, 'Corporate mandatory disclosure practices in Bangladesh', *The International Journal of Accounting*, vol. 40, no. 4, pp. 399-422.

Alanezi, FS & Albuloushi, SS 2010, 'Does the existence of voluntary audit committees really affect IFRS-required disclosure? the Kuwait evidence', *International Journal of Disclosure and Governance*, vol. 8, no. 2, pp. 148-173.

Ali, M., Ahmed, K. & Henry, D 2004, 'Disclosure compliance with national accounting standard by listed companies in South Asia', *Accounting and Business Research*, vol. 34, no. 3, pp. 183-199.

Aljifri, K 2008, 'Annual report disclosure in a developing country: the case of the UAE', *Advances in Accounting, Incorporating Advances in International Accounting*, vol. 24, no. 1, pp. 93-100.

Arcay, MRB & Vazquez, MFM 2005, 'Corporate characteristics, governance rules and the extent of voluntary disclosure in Spain', *Advances in Accounting*, vol. 21, pp. 299-331.

Bachtiar, YS 2003, 'Hubungan antara manajemen laba dengan tingkat pengungkapan laporan keuangan', Master thesis, University of Indonesia, Depok.

Ball, R & Foster, G 1982, 'Corporate financial reporting: a methodological review of empirical research', *Journal of Accounting Research*, vol. 20, supplement, pp. 161-234.

Banz, RW 1981, 'The relationship between return and market value of common stock', *Journal of Financial Economics*, vol. 9, no. 1, pp. 3-18.

Barako, D, Hancock, P & Izan, H 2006, 'Factors influencing voluntary corporate disclosure by Kenyan companies', *Corporate Governance: an International Review*, vol. 14, no. 2, pp. 107-125.

Benjamin, TY, An-Yeung, PK, Kwok, MCM & Lau, LWC 1990, 'Non compliance with disclosure requirements in financial statement: the case of Hongkong companies', *The International Journal of Accounting*, vol. 25, no. 2, pp. 99-112.

Bova, F. & Pereira, R 2012, 'The determinants and consequences of heterogeneous IFRS compliance levels following mandatory IFRS adoption: evidence from a developing country', *Journal of International Accounting Research,* vol. 11, no. 1, pp. 83-111.

Cahyati, AD 2011, 'Peluang manajemen laba pasca konvergensi IFRS: sebuah tinjauan teoritis dan empiris', *Jurnal Riset Akuntansi dan Komputerisasi Akuntansi*, vol. 2, no. 1, pp. 1-7.

Chou, GK & Gray, SJ 2010, 'Family ownership, board independence, and voluntary disclosure: evidence from Hong Kong', *Journal of International Accounting, Auditing, and Taxation*, vol. 19, no. 2, pp. 93-109.

Choi, F 2005, *International accounting*, Prentice Hall, New Jersey.

Cooke, TE 1989, 'Disclosure in the corporate annual report of Swedish companies' *Accounting and Business Research*, vol. 19, no. 74, pp. 113-124.

Daniel, K. & Titman, S 1997, 'Evidence on the characteristics of cross sectional variation in stock return', *Journal of Finance*, vol. 52, no. 1, pp. 1-31.

Darrough, MN 1993, 'Disclosure policy and competition: cournot vs bertrand', *The Accounting Review*, vol. 68, no. 3, pp. 534-561.

Depoers, F 2000, 'A cost-benefit study of voluntary disclosure: some empirical evidence from French listed companies', *The European Accounting Review*, vol. 9, no. 2, pp. 245-263.

Dewi, N 2008, 'Analisis pengaruh current ratio, return on investment, dan earning per share terhadap perubahan saham pada perusahaan manufaktur di Bursa Efek Indonesia', Undergraduate Thesis, Universitas Sebelas Maret, Surakarta.

Farma, E, Kenneth, F & French, R 1995, 'Size and book to market factors in earning and returns', *Journal of Finance*, vol. 50, no. 1, pp. 131-155.

Ghozali, I 2011, *Aplikasi analisis multivariate dengan program IBM SPSS 19*. Semarang: Badan Penerbit Universitas Diponegoro.

Glaum, M., & Street, D. L. (2003). Compliance with the disclosure requirements of Germany's new market: IAS versus US GAAP. *Journal of International Financial Management and Accounting*, 14(1): 64-100.

Hartono, J. 2010, Teori portofolio dan analisis investasi, BPFE, Yogyakarta.

Healy, PM & Palepu, KG 2001, 'Information asymmetry, corporate disclosure, and the capital market: a review of the empirical disclosure literature', *Journal of Accounting and Economics*, vol. 31, no. 1, pp. 405-440.

Healy, PM, Hutton, AP & Palepu, KG 1999, 'Stock performance and intermediation change surrounding sustained increases in disclosure', *Contemporary Accounting Research*, vol. 16, no. 3, pp. 485-520.

Healy, PM & Wahlen, JM 2000, 'A review of the earnings management literature and its implications for standard setting', *Accounting Horizons*, vol. 13, no. 4, pp. 365-383.

Hussainey, K, Schleicher, T & Walker, M 2003, 'Undertaking large-scale disclosure studies when AIMR-FAF ratings are not available: the case of prices leading earnings', *Accounting and Business Research*, vol. 33, no. 4, pp. 275-294.

Inchausti, BG 1997, ' The influence of company characteristics and accounting regulations on information disclosed by Spanish firms', *The European Accounting Review*, vol. 1, no. 1, pp. 45-68.

Istiningrum, AI & Suryati 2014, 'Pengaruh residual income dan market to book ratio terhadap stock return pada industri manufaktur', *Jurnal Ilmu Manajemen*, vol. 11, no. 3, pp. 1-20.

Kieso, DE, Weygandt, JJ & Warfield, TD 2011, *Intermediate accounting,* IFRS edn, John Wiley & Sons, USA.

Kurniawan, YA 2013, 'Faktor-faktor yang mempengaruhi luas pengungkapan sukarela pada laporan tahunan perusahaan di Bursa Efek Indonesia', Undergraduate Thesis, Atmajaya University, Yogyakarta.

Kusumo, RMGI 2011, 'Analisis pengaruh rasio keuangan terhadap return saham pada perusahaan non bank LQ 45', Undergraduate Thesis, Diponegoro University, Semarang.

Latridis, G 2008, 'Accounting disclosure and firms' financial attributes: evidence from the UK stock market', *International Review of Analysis*, vol. 17, no. 2, pp. 219-241.

Maharani, LGP & Budiasih, IGAN 2016, 'Pengaruh ukuran, umur perusahaan, struktur kepemilikan, dan profitabilitas pada pengungkapan wajib laporan tahunan', *E-jurnal Akuntansi Universitas Udayana*, vol. 14, no. 1, pp. 34-52.

Malone, D, Fries, C & Jones, T 1993, 'An empirical investigation of the extent of corporate financial disclosure in the oil and gas industry', *Journal of Accounting, Auditing, and Finance*, vol. 8, no. 3, pp. 249-273.

Marston, CL & Shrives, PJ 1991, 'The use of disclosure indices in accounting research: a review article', *British Accounting Review*, vol. 23, no. 3, pp. 195-210.

Meek, GK, Roberts, CB & Gray, SJ 1995, 'Factors influencing voluntary annual report disclosures by US, UK, and Continental European multinational corporation', *Journal of International Business Studies,* vol. 26, no. 3, pp. 555-572.

Mintara, YH 2008, 'Pengaruh implementasi corporate governance terhadap pengungkapan informasi', Undergraduate Thesis, Universitas Islam Indonesia, Yogyakarta.

Naser, K. 1998, 'Comprehensiveness of disclosure of non-financial companies listed on the Amman financial market', *International Journal of Commerce and Management*, vol. 8, no. 1, pp. 88-119.

Nugraha, B. 2005, 'Pengaruh tingkat pengembalian investasi (return on investment) terhadap harga saham pada PT Astra Agro Lestari Tbk , Undergraduate Thesis, Universitas Komputer

Indonesia, Jakarta.

Octora, M, Salim, Y & Petrolina, TA 2003, Analisa pengaruh penilaian kinerja dengan konsep konvensional dan konsep value based terhadap rate of return, Ikatan Akuntan Indonesia, Jakarta.

Owusu-Ansah, S 1998, 'The Impact of corporate attributes on the extent of mandatory dsclosure and reporting by listing companies in Zimbabwe.', *International Journal of Accounting*, vol. 33, no. 5, pp. 605-631.

Owusu-Ansah, S & Yeoh, J 2005, 'The effect of legislation on corporate disclosure practices', *Abacus*, vol. 41, no. 1, pp. 92-109.

Popova, T, Georgakopoulos, G, Sotiropoulos, I & Vasileiru, KZ 2013, 'Mandatory disclosure and its impact on the company value', *International Business Research*, vol. 6, no. 5, pp. 1-16.

Prawinandi, W, Suhardjanto, D & Triatmoko, H 2012, Peran struktur corporate governance dalam tingkat kepatuhan mandatory disclosure konvergensi IFRS, Trunojoyo University, viewed 20 October 2014,

   <http://asp.t,runojoyo.ac.id/wp-content/uploads/2014/03/067-CG-21.pdf.>

Preacher, KJ and Leonardelli GJ 2006, *Calculation for the Sobel Test: an interactive calculation tool for mediation test,* Department of Psychology, University of Kansas, viewed 12 November 2014, <http://www.psych.ku.edu/preacher/sobel/sobel.htm>

Samsul, M 2008, *Pasar modal dan manajemen portfolio.*, Erlangga, Jakarta.

Sarwono, J 2007, Analisis jalur untuk riset bisnis dengan SPSS, Andi, Yogyakarta.

Scott, RW 2000, *Financial accounting theory,* 2nd edn, Prentice Hall International, Inc, University of Water.

Singhvi, SS & Desai, HB 1971, 'An empirical analysis of the quality or corporate financial disclosure', *The Accounting Review,* vol. 46, no. 1, pp. 120-138.

Silviana, YHK. 2014, 'Perbedaan tingkat pengungkapan antara perusahaan asing dan domestik dengan adanya konvergensi IFRS', Undergraduate Thesis, Atmajaya University, Yogyakarta.

Setianto, A 2014, 'Penerapan IFRS dan hubungann-

ya dengan komparabilitas pengungkapan aset tetap pada laporan keuangan perusahaan', Undergraduate Thesis, Diponegoro University, Semarang.

Sugiarto, A 2011, 'Analisa pengaruh beta, size perusahaan, DER, dan PBV ratio terhadap return saham', *Jurnal Dinamika Akuntansi*, vol. 3, no. 1, pp. 8-14.

Sunyoto, D 2011, *Riset bsnis dengan analisis jalur SPSS*, Gaya Media, Yogyakarta.

Syahrul, Y 2002, *Bapepam: kasus Kimia Farma merupakan tindak pidana*, Tempo, viewed 15 October 2014,

   <http://www.tempo.co.id/hg/ekbis/2002/11/04/brk,20021104-36,id.html.>

Tomaszewski SG & Showerman, S 2010, 'IFRS in the United States: challenges and opportunities', *Review of Business*, vol. 30, no. 2, pp. 59-71.

Utami, WD, Suhardjanto, D & Hartoko, S 2012, Investigasi dalam konvergensi IFRS di Indonesia: tngkat kepatuhan pengungkapan wajib dan kaitannya dengan mekanisme corporate governance, Trunojoyo University, viewed 2 November 2014,

   <http://asp.trunojoyo.ac.id/wp-content/uploads/2014/03/066-CG-20.pdf>

Wallace, RSO 1987, 'Disclosure of accounting information in developing countries: a case study of Nigeria', PhD Dissertation, University of Exter, UK.

Wallace, RSO & Naser, K 1995, 'Firm-spesific determinants of comprehensiveness of mandatory disclosure in the corporate annual reports of firms on the Stock Exchange of Hongkong', *Journal of Accounting and Public Policy,* vol. 14, no. 4, pp. 311-368.

Wallace, RSO, Naser, K. & Mora, A 1994, 'The relationship between the comprehensiveness of corporate annual reports and firm characteristics in Spain.', *Accounting and Business Research*, vol. 25, no. 97, pp. 41-53.

Widyastuti, T 2007, 'Pengaruh karakteristik perusahaan terhadap manajemen laba dan dampaknya pada return saham', *Akuntabilitas*, vol. 7, no. 1, pp. 38-44.

Wolk, HI & Tearney, MG 2001, *Accounting theory: a conceptual and institutional approach,* 5th edn, South Western College Publishing, Ohio.