ABSTRACT

The purpose of this study is to assess the influence of the board of commissioner's educational background, leverage, and profitability on the extent of voluntary disclosure. The independent variables used are the board of commissioner's educational background, leverage, and profitability. Secondary data is obtained from the annual report and financial statements published through Indonesia Stock Exchange (IDX) in the period 2011-2013. It is seen that the educational background has no effect on the extent of voluntary disclosure. Leverage has no effect on the degree of voluntary disclosure whereas profitability does.

Keywords: background, leverage, profitability, disclosure

INTRODUCTION

Financial reports provided by a company help the shareholders and other interested parties assess the performance of the company. Such reports provide not just financial information; they also provide information related to the company's activities that could affect the company's performance. Examining the case of Pricewater House Coopers, Khomsiyah (2003) investigates the information gap between the agent and the principal with the help of respondents' institutional investors in Singapore and provides some results throwing light on some Asian and Australian practices.

Indonesia ranks very low in perceived accountability standards, e.g., the processes by which board membership is determined and auditing and obedience. According to many studies, Indonesia ranks very low in terms of disclosure and transparency. Since the accountability measures utilized by Indonesian business firms are weak and below standard, one cannot totally trust neither the way corporate resources are managed nor the investments made. Related procedures are mostly out of line with the international financial reporting standards which advocate the principle that "the objective of financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity." This suggests that the information provided by the company should be such that it can be used and trusted by all stakeholders, especially shareholders.
Corporate governance is a mechanism through which investors are protected from information asymmetry observable from the degree of information disclosure on the part of the company (Healy and Palepu; and Welker in Khomsiyah (2003). Khomsiyah (2003) notes that the companies implementing corporate governance would provide more information in order to reduce information asymmetry. Since the level of disclosure depends on the information given, the more the information revealed, the better is the implementation of corporate governance by the company. One path followed by investors while reviewing whether capital has been invested properly is to perform process control or monitoring, where the regulatory process is supervised by the Board of Commissioners. However, this is just one part of corporate governance. In order for the board of commissioners to carry out these responsibilities effectively, the board needs to make an objective and independent assessment. To be able to carry out their responsibilities properly, it is necessary for commissioners to understand the business of the company. This can mainly be achievable through proper education and training. Thus, commissioners can conduct surveillance and prepare and submit annual reports including all the information that is considered appropriate and relevant to be disclosed or reported. Other users of the reports also need detailed information. It is important for governance stakeholders to know the results of the company's performance, as they will have to vote on the company's financial performance on the basis of the leverage and profitability ratios reported. Therefore, the company is expected to voluntarily disclose information concerning the performance (profitability) of the company.

The company also needs to disclose information to other interested parties, especially the debtor, if the company has a high debt level. This is done so that the company can convince the shareholders, debtors, as well as other interested parties that the company has the ability to perform well and can continue to maintain the company's business and its ability to repay the loan by the company. Therefore, the educational backgrounds of the commissioners, leverage and profitability can be expected to influence the extent of voluntary disclosure by the company. The following questions are of particular research interest:

- Does the educational background of the commission members influence the degree of voluntary disclosure?
- Does leverage affect voluntary disclosure?
- Does voluntary disclosure affect profitability?

This study seeks to determine the degrees to which the educational backgrounds of the commissioners, leverage and profitability influence voluntary disclosure. The results are found to be not totally consistent with previous findings and throw light on the above three variables.

**LITERATURE REVIEW AND DEVELOPMENT HYPOTHESIS**

1. **Agency Theory**

Agency theory arises due to the asymmetry of information frequently found between the management (agent) and the owner (principal). According to Scott (2007: 305) in Aniroh (2014), the theory is based on a concept derived from the agency or contractual relationship between the principal and the agent; principal is the party employing the agent in order to perform tasks for the benefit of the principal, while the agent is the party that caters to the interests of the principal. There is a difference in the
knowledge available to the principal and the agent; unlike, the principal, the agent has complete information about the state of the company. Differences in terms of enterprise-related information point to asymmetric information. This is why there is a need to disclose information concerning the company's performance, in which the information set forth in the reporting and disclosure provides an overview and understanding of the company's performance. It also provides a form of management accountability to the principal. However, the fact is that the agent often has difficulty in meeting the wishes of the principal fully.

Khomsiyah (2003) identified some reasons behind the difficulty in meeting the principal’s desires: the cost of the presenting information, management’s wish to avoid the risk of exposing their weaknesses, the time used to present information, and so on. Therefore, a conflict regarding the differences in knowledge about the condition of the company to the principal and agent can be minimized in various ways, one of which is through the disclosure of information by management (agent). In an effort to reveal the information desired by the principal, it is necessary to engage in good corporate governance and, essentially, to be effective. One issue of interest in bringing about the creation of governance and good internal control relates to the role of the board of commissioners as a part of the top management. For the commissioners to be able to work effectively, they will need to have competence. Legal competency, for instance, is essential in carrying out the work in accordance with the expertise and skills possessed by the commissioners.

Mulyadi (2002: 185) says: “To achieve the entity's objectives, personnel in every organization must have the knowledge and skills necessary to perform their duties effectively”. Commitment to competence includes management's judgment upon the knowledge and skills required and the intelligence to guide. Training, and experience are required in the development of competence. The Financial Services Authority (2014) also says that the Roadmap Corporate Governance Indonesia that diversified composition of the board of commissioners and directors as diversity will encourage decision-making in a more objective and comprehensive manner by taking into account various viewpoints and interests.

Cadbury Report (1992) in Andriani, et al (2007) also believes the same thing; it states that the competence of the commissioners is critical for the creation of an effective board of directors. Therefore, the level of basic skills, seen through the educational background of a board of commissioners as one of the foundations in the implementation of good corporate governance, is a critical factor enhancing corporate value and quality of monitoring the company’s performance as well as the reporting and disclosure of company information. Resource Dependence Theory (RDT) reveals that diversity increases creativity and innovation (Sudiartana2013). If managers possess procedural knowledge and standards of performance, it is much more likely that a high control or a bureaucratic control combination will be adopted (Brettel and Voss, 2013). Similarly, if managers are dependent on their subordinates’ expertise, performance, or connections, then a clan control or high control package is more likely to be adopted.

2. **Stakeholder Theory**

An organization or a company cannot stand on its own; it needs to be linked to many parties — not just the shareholders investing in the company, but also many others referred to as stakeholders. According to Freeman and Reed (in Deegan and Unerman, 2006: 286) the term stakeholders refers to "a identifiable group or individual
who can affect the achievement of an organization's objectives, or is affected by the achievement of an organization's objectives." Therefore, in sustaining business continuity, the company is not the only entity that operates for its own interests; it can also provide benefits for many other stakeholders.

Because the survival of a company depends on the support of stakeholders, it should not focus just on economic indicators, but also must consider other factors relating to the company's activities, both internal and external. According to Henderson et al. (Fitriana and Prastiwi, 2014) stakeholder theory of corporate decision-making must consider the needs and interests of all parties related to the company's activities.

There are two perspectives of stakeholder theory: the first is centered on the company (organization centered). The second perspective is based on the principle of accountability, for instance, the media might make a voluntary disclosure of the company's management accountability to all stakeholders. Both of these cause the company difficulties in meeting all the stakeholders' interests; it is impossible to give equal treatment to all stakeholders. Therefore, it is important for companies to be able to identify groups of stakeholders who have a role in the company and can have good relationships with stakeholder groups.

Good relationships with stakeholders, one of which can be done with the voluntary disclosure (Henderson, et al in Fitriana and Prastiwi, 2014).

3. Signaling Theory

Signaling theory seeks to explain the behavior of managers while expressing information. If the manager expects that the company will realize improved performance, the manager will be compelled to disclose such information to investors by providing cues through the accounts disclosed in the financial statements. However, for managers of poorly performing companies, it would be difficult to disclose such information. To maintain credibility amongst investors, the managers could be tempted to hide unfavorable information.

Management will endeavor to disclose more information to interested parties, especially while reporting good news pointing to improved company performance. Management also wants to earn the trust of parties concerned with how to improve the disclosure of information so that these efforts can improve the credibility of the company even though the information disclosed is not part of the required disclosures. In his book signaling theory, Sudana (2011: 153) says that companies that are capable of generating profits tend to increase the size of their debt — since additional interest payments will be offset by income before taxes.

High corporate debt increases the possibility of the company getting into financial difficulties. The company may use the additional interest to reduce tax on corporate profits. According to Semakin, additional debt only slightly increases the risk of bankruptcy. In other words, a rational company would add debt if the debt can increase profits. A rational investor could consider that an increase in the company's value comes from the use of high debt. Then the investors might offer a higher stock price after the companies issue debt to buy back outstanding shares. In other words, investors mostly look at debt as a signal of the value of the company.

In an effort to provide information that is relevant and reliable, it is necessary that parties representing the rights of shareholders supervise the performance of the directors of the company and the Board of Commissioners (BOC). To be able to carry out their responsibilities properly, it is necessary to have commissioners who understand
the business of the company, as well as the basic skills (as measured by educational background) so that they can provide surveillance while preparing the annual report and may submit any information considered relevant to be disclosed, wherever such information is needed by users of the company's annual report.

H1: Educational Background of the BOC has an influence on the degree of Voluntary Disclosure.

4. Financial Statements

Financial statements are a product of the process of financial reporting and are governed by the standards and rules of accounting, manager incentives, and mechanisms for the running and supervision of the company (Subramanyam and Wild 2010: 79). Therefore, the financial statements are very important for the parties concerned, especially for shareholders who have invested in a company, so they can get informed about the company's activities. However, financial statement is not the only source of information useful in assessing the performance of a company.

A financial report is a financial statement that is coupled with other information relating directly or indirectly to the information provided by the accounting system, such as information about the company's resources, earnings, current costs, information about the prospects of the company that is integral with the aim of meeting a level of disclosure deemed to be sufficient (Yadiati 2007: 52). Financial reporting should provide information on the vendor's performance during the period, since investors and creditors often use past information to help assess the prospects of a company. So, although the investment and credit decisions reflect the expectations of investors and creditors about the company's performance in the future, the expectations are generally based on at least a portion of the evaluation of the company's performance in the past (Ahmed Riahi and Belkaoui, 2006: 234).

There are two types of disclosures from the perspective of the requirements set out in standards: a) Disclosure for compulsory (mandatory disclosure) reporting, and b) Disclosure provisions that are required to be used in a public company in Indonesia as required by the Capital Market Supervisory Agency (Bapepam) (Choi and Meek 2005: 191). Regulations regarding Submission of Annual Report of Public Company were issued by the Chairman of Bapepam through XK6 Regulation No. KEP-431/BL/2012. Regulations regarding Submission of Annual Report of Public Company were issued by the Chairman of Bapepam through XK6 Regulation No. KEP-431/BL/2012. As for the quality of decision-making influenced by the quality of corporate disclosure provided through annual reports (annual reports), if the information presented in financial statements is easily understood and does not give rise to misinterpretation. In such a case, the presentation of financial statements must be accompanied by sufficient disclosure (adequate disclosure). Disclosure is the minimum disclosures presented in accordance with applicable regulations.

5. Voluntary disclosure

Mandatory disclosure by the management is important to help investors understand the core drivers of the company’s shareholder value. Additional disclosures may also be required to provide an understanding of how the company views itself and in identifying trends and anticipating results from future operations (Subramanyam in the book by Wild, 2010: 88).

Lawsuits constitute the motivation behind most financial statements. Managers who voluntarily reveal important news, especially that are harmful, should be able to
face investor demands. To avoid such risks, the manager may choose to disclose only limited information while hiding potentially misleading or harmful information. This means that the details in the financial statements are insufficient to provide a full picture of the performance and prospects of the company (Subramanyam in the book by Wild, 2010: 88).

Voluntary disclosure is a free choice made by management companies towards providing accounting and other relevant information for decision-makers and other users of the annual report. However, the flexibility a company has while making voluntary disclosures in the annual report leads to considerable variation in the levels of disclosure made by different companies (Meek, 1995). Voluntary disclosure is that which can be freely done by the company in the interests of companies that are considered relevant and supportive in economic decision-making; this is done via the annual report (Adhi, 2012, in Indriani, Khafid, and Anisyukurlillah, 2014).

6. Financial Performance

To view the performance outcome of companies, stakeholders will study the company's financial statements. In the book Riahi and Belkaoui (2006: 234), the prime focus of financial reporting lies in the information about income and its components. Financial reporting is expected to provide information about the company's financial performance during a period, and how the management of a company uses the responsibility of management is related to the owner.

As for leverage and profitability leverage, Horngren, Sundem, and Elliott (2000) say that obligation is the responsibility of an entity to pay cash or provide goods and services to other business entities. Leverage ratio is used to measure how much debt is used to sustain corporate spending (Sudana, 2011: 20). Leverage can be measured in many ways. In Sudana (2011: 20), Leverage ratio measures the proportion of funds from debt accumulated that is used to finance the company's assets. The larger this ratio, the greater the portion of the debt used to finance investments in assets. This also means that the company's financial risk increases and vice versa. Times interest earned ratio measures the company's ability to pay a fixed load of interest by using EBIT (Earnings Before Interest and Taxes). A larger ratio means that the better the company's ability to pay interest, the higher are the chances of securing further loans. c) Debt to equity ratio: Brigham and Houston (2011: 165) use concentration of the company's business risk to shareholders. The higher the percentage of debt in the capital structure, the higher is the risk with the debt; so the higher is the interest rate charged by the lender.

Stakeholders assess the financial performance of companies using a range of indicators, including the company's leverage ratio. Recall that the company will voluntarily disclose information to interested parties if the company's performance has increased.

H2: Leverage has an influence on the level of voluntary disclosure.

7. Profitability

Companies are able to generate profits by using their resources, e.g., assets, capital, or company sales (Sudana, 2011: 22). According to Sudarmadji and Sularto (2007), profitability is an indicator of performance used by the management to manage a company's assets in accordance with the profit generated. There are several ways to measure profitability:
1. Return on assets (ROA): According to Sudana (2011: 22), ROA shows a company's ability to use all the assets owned to generate a profit after tax. This ratio is important for the management in evaluating the effectiveness and efficiency of the company in managing all assets — ROA perusahaan (disclosure) and more large — meaning using the assets of the company more efficiently.

2. Return on equity (ROE): Sudana (2011: 22) indicates that ROE is the company's ability to generate profit after tax by using the capital of the company. This ratio is important for shareholders in determining the effectiveness and efficiency of its own capital management as conducted by the management; the higher this ratio the more efficient the use of capital itself by the management company.

3. Profit margin ratio: Profit margin ratio measures the company's ability to generate profits. A high ratio indicates that the company is more efficient in carrying out its operations.

4. Basic earning power. This ratio measures the company's ability to generate earnings before interest and taxes by using the total assets owned by the company. The ratio reflects the effectiveness and efficiency of the management in utilizing investments made by the company. A high ratio means more effective and efficient management of all assets owned by the company to generate earnings before interest and taxes.

Other indicators used by stakeholders to look at the performance of a company include the company's profitability. The company will voluntarily disclose information to interested parties if the company's profitability has increased.

H3: Profitability has an influence on the level of voluntary disclosures.

Sample and Research Methodology

Data were collected from the annual reports and financial statements of companies listed on the Stock Exchange 2011-2013. The scope of this study was limited to the educational background of commissioners, leveraging as measured by debt to equity ratio, and profitability as measured by return on assets. The sample using the purposive sampling method tailored to certain considerations related to the goals of this research.

Variable Operational Definition

Voluntary Disclosure

Mandatory disclosures provided by the management help investors understand the core drivers of shareholder value (Subramanyam and Wild 2010: 82). Additional disclosures maybe required to provide an understanding of how the company analyzes itself; they can be useful in identifying trends and anticipate future performance. In this study, voluntary disclosure was measured by the instruments described in Wardani (2012), which were designed with reference to Bapepam-LK XK6 numbers in 2012 upon the submission of annual reports that had been modified by an instrument created by Botosan (1997).

Educational Background of Board of Commissioners (BOC)

Commissioners are representatives of the shareholders of an incorporated Limited Liability Company. In executing their roles effectively, it is necessary that the commissioners have the basic skills (as assessed by their respective educational
backgrounds), so that the process of monitoring the activities of directors and the magnitude of the disclosure provided by the company can increase the credibility and transparency of the company in the eyes of the interested parties. Commissioners and directors must be comprised of professional members, with expertise in the fields of law, tax, or accounting. The existence of commissioners and directors who have experience in the industry and relevant business is very beneficial to the company's board as they can provide perspective on the relative risks and competitive advantages as well as a better understanding of the challenges faced by the enterprise's business.

Measurement of the educational background of commissioners was made in this study by reference to research conducted by Sudiartana (2013) and Yuniasih et al. (2011), both of which use the calculation of Ponnu (2008). In this calculation educational background is classified first into several fields including accounting and finance, management, law, engineering, social, economics. Next, the company is divided into scattered groups (diverse) and do not spread across (non-diverse):

1. When only <40% (0% - 39% same educational background) of commissioners have the same educational background, it is coded 1 (spread).
2. When >40% (40% - 100% the same educational background) commissioners have the same educational background as all of the others, it is coded 0 (no spread).

Leverage obligation is the responsibility of an entity to pay cash or provide goods and services to business entities and other interested parties. They are very concerned about the level of debt and the management that prepares financial statements reveal carefully all liabilities of the company.

The higher the level of leverage, the greater is the company's dependence on borrowings from creditors (Setyaningrum and Zulaikha, 2013). For purposes of testing leverage and voluntary disclosure, proxy is measured by debt to equity ratio.

Profitability is an indicator of performance by management in managing the company's assets as suggested by the profit generated (Sudarmadjii and Sularto, 2007). In this study, profitability was measured by return on assets ratio.

**SAMPLE AND DATA ANALYSIS**

\[ IPS = \alpha + \beta_1 \text{EDUC} + \beta_2 \text{LEV} + \beta_3 \text{PROF} + \epsilon \]

This study was conducted using secondary data drawn from annual reports of companies listed on the Indonesian Stock Exchange (BEI). The reports can be accessed from the IDX sites and other sites.

The data analysis technique used in this study was Multiple Linear Regression Analysis. The data used were panel data. Specifically, three kinds of regression models were used: Pooled Least Square, Fixed Effect Model and Random Effect Model. Testing was conducted by using Eviews software version 8.0 in view of its ease and completeness relative to SPSS. The selection of panel data regression methods was performed using the Redundant Fixed Effect Test and Hausman Test.
Table. 1 t-Tests

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>IPS</td>
<td>0.364215</td>
<td>0.051385</td>
<td>7.086597</td>
<td>0.0000</td>
</tr>
<tr>
<td>EDUC</td>
<td>-0.066608</td>
<td>0.038146</td>
<td>-1.748463</td>
<td>0.0837</td>
</tr>
<tr>
<td>LEV</td>
<td>-0.020187</td>
<td>0.037743</td>
<td>-0.534849</td>
<td>0.5940</td>
</tr>
<tr>
<td>PROF</td>
<td>0.801202</td>
<td>0.294047</td>
<td>2.645768</td>
<td>0.0438</td>
</tr>
</tbody>
</table>

Notes: IPS: Voluntary Disclosure Index, EDUC = Board of Commissioners Background, LEV = Debt to equity ratio, PROF = Return on asset
* significance at 10%
** significance at 5%
*** significance at 1%

DISCUSSION

By using Based Regression Model Testing, redundant fixed effect and Hausman test, it could be concluded that the model appropriate to this study was the random effects model (REM). Table 1 shows the results from the multiple linear regression analysis.

Education Background of the Board of commissioners: Effect on Voluntary Disclosure

Educational background of the board of commissioners (EDUC) had a probability value greater than the value of significance: 0.0837 (Prob)> 0.05 (a significance value). The t-statistic was 1.7485 compared to the 1.987 indicated in the t-table; meaning that the background of commissioners did not have an influence on the board voluntary disclosure.

The above findings are consistent with those of Yuniasih, et al. (2011) notes that the factors underlying such research results, e.g, formal education background, are not the only factors influencing decision concerning the disclosure of information the ability of commissioners is also strongly influenced by experience and several other considerations need to be included.

Leverage On Voluntary Disclosure

Note that variable leverage (LEV) has a probability value greater than the significance value: 0.5940 (Prob)> 0.05 (a significance value). In this result, t-Statistic= -0.5349 whereas the value in the t-table = 1.987. meaning leverage does not have an influence on broad voluntary disclosure. Permanasari (2012) says that the higher debt to equity ratio does not make companies disclose more information, the obligations contained in the company are basically an agreement between the creditors and the company. Upon review, the creditor providing credit or loan will take into account...
several factors such as character, the ability to borrow, the ability to generate revenue, capital, collateral and general economic conditions.

**Profitability On Voluntary Disclosure**

Variable profitability (PROF) has a probability value smaller than the value of significance—0.0438 (Prob) of <0.05 (significant value). By comparing the t table and t statistic—2.0446 t > 1.987 (t table), meaning that profitability is significantly influenced by the extent of voluntary disclosure. These results are in agreement with those from a similar research conducted by Wardani (2012). This is because the profitability is related to the ability of a company to provide financial rewards and is enough to provide traction and keep the funding of the company (Wild, Shaw, Chiappetta 2009: 681 in Wardani, 2012). Shingvi and Desai state (in Wardani, 2012) that economic profitability and high profit margins will encourage managers to provide more detailed information, because they want to convince investors about the company’s profitability and encourage compensation for management.

**CONCLUSION**

Based on the above analysis and discussion, it may be concluded that the educational background of commissioners has no effect on voluntary disclosure. Likewise, variable leverage has no effect on voluntary disclosure. However, variable profitability does affect the extent of voluntary disclosure (at a significance of 0.044 which less than 5%).

**Recommendation for future Research**

Future investigators may do well by investigating other independent variables affecting the extent of voluntary disclosure. Examples are gender diversity, diversity of nationality and corporate governance mechanism. This study has used the case of manufacturing so it is better for future researchers to examine companies engaged in other industries that are different in order to compare each industry.

Results concerning the measurement of voluntary disclosure in the present research are dichotomous. Disclosure index was measured by interpreting the annual report in a manner assigning the same weight to each information item. A different approach is worth considering.

**REFERENCES**


