CHAPTER I
INTRODUCTION

A. BACKGROUND

In this globalization era, the business competition in Indonesia is getting tougher. Therefore, many companies in Indonesia are expected to be more transparent. The increasing demand for company transparency requires providers of financial statement to disclose broader company information. The company's financial statements that are disclosed to the public are expected to be able to reflect the real company's financial condition.

The financial statements are instruments to disclose information to the parties outside the company that have an interest in the company. The interest of stakeholders who want the disclosure of financial statements that are transparent and complete are contrary to the interests of the management who cannot convey some confidential information (Prasetyo, 2017). Management will keep the company's confidential information from being known from its competitors, which will weaken the company's position in business competition.

The different interests between stakeholders and the management can lead into asymmetry information. The disclosures prepared in the annual report can be grouped into two types: mandatory disclosure and voluntary disclosure. Mandatory disclosure is information disclosure required in financial statements that are regulated by the government or standard regulatory bodies *IAI (Ikatan Akuntan Indonesia)* and *BAPEPAM-LK (Badan Pengawas Pasar Modal dan Lembaga Keuangan)*). Whereas voluntary disclosure is a disclosure by a company which is beyond the reporting requirement set by the accounting standard board or regulatory agency as an extent to give more information related to the company. The quality of information can be seen from the disclosure size of the financial and annual reports prepared by the company. Investors use the disclosures as a basis for investment decision making.

Voluntary disclosure is a choice of the management to provide accounting information and other information deemed relevant for decision making by the users of its annual report. The existence of voluntary disclosures can reduce the asymmetry information between management and stakeholders. Furthermore, the registered companies in Indonesia Stock Exchange must disclose the information in financial statements, which has been regulated by *BAPEPAM-LK* as a mandatory disclosure. In addition, many of these companies revealed more information than what was required as a voluntary disclosure.

However, the policies regarding the voluntary disclosure size may vary, this is because there are no fixed standards governing the voluntary disclosure. Management has several considerations in disclosing voluntary information, one of which is the cost and benefit factor. According to Suripto (1999), manager will disclose information voluntarily if the benefits are obtained greater than the costs incurred. The scandal of large companies and the financial crisis prompted investors to pay attention to the disclosure of company information that is voluntary. As the examples, in 2008 the global financial crisis occurred, and then in 2010 the European crisis spread across Europe. The crisis included the economic crisis that hit Greece, which had a domino effect on Ireland, Portugal, Italy, and Spain.

The impact of those crisis has also begun to be felt in Indonesia through plummeted value of *Indeks Harga Saham Gabungan (IHSG)*. In addition, the recent Asian financial crisis is not only due to a loss of investor confidence, but more importantly, the lack of effective corporate governance and transparency in many financial markets and individual companies in Asia (Ho and Wong, 2001). Therefore, Financial Accounting Standards Board (2001) in Meythi (2012) found that companies that disclose business and financial information on a regular basis voluntarily are able to provide information that is more helpful to investors and creditors to understand the company better.

There have been many studies focusing on voluntary disclosure, specifically the factors that influence voluntary disclosure. Thus, researcher may focus on several factors to be used in this study: ownership structure (Nugraheni and Anuar, 2014; Sulistyaningsih and Gunawan, 2016; Nainggolan, 2017), type of audit firm (Uyar, 2011; Nugraheni and Anuar, 2014; Aprisa, 2016; Elfeky, 2017), board of directors size (Aniroh, 2014; Dias and Craig, 2017; Elfeky, 2017; Qadan and Suwaidan, 2018) and board of commissioners size (Mulyadi, 2002; Alfiana, 2018;). The first factor influencing voluntary disclosure is the ownership structure. The more shares owned by the public, the greater the pressure faced by companies to disclose more information in their annual reports. This is because the greater the portion of public ownership, the more parties will need information about the company, so the more detailed information items are required to be disclosed in the annual report.

Sulistyaningsih and Gunawan (2016) found empirical results that public ownership and board of commissioners size has a positive effect on voluntary disclosure. However, the results of this study differ from Nainggolan (2017) and Nabor (2014) studies which show that managerial ownership structure has no significant influence on the size of voluntary disclosure.

The second factor influencing voluntary disclosure is the type of audit firm. The relationship between industry types, audit firms and profitability on disclosure of corporate social responsibility is being debated. An audit firm is usually associated with audit quality and reputation. Good audit firms will maintain their reputation by maintaining quality and results audits. The results of Elfeky (2017) study provide evidence that audit firm type significantly influence the level of voluntary disclosure.

The third factor influencing voluntary disclosure is board of directors size. The board of directors size is the number of directors included in the company boards. The more members of the board of directors, the wider the representation of the shareholder is. Therefore, shareholder demand for transparency will increase. The greater representation of directors is likely to have a positive effect on company information disclosure policies (Dias and Craig, 2017). According to POJK No. 33/POJK.04/2014, it requires companies to have at least 2 person in the board of directors.

The fourth factor influencing voluntary disclosure is board of commissioners size. The board of commissioners is the highest executive in the company whose function is to oversee the management of the company and is responsible for determining whether management fulfils their responsibilities in developing and implementing internal control of the company (Mulyadi, 2002). As the shareholder's representative, the board of commissioners must have the same vision and mission among the members in carrying out their duties and responsibilities. Therefore, the board of commissioners has a strong power to make sure the management of the company is well managed.

Indonesia is a country with the largest Muslim population in the world, with Islamic-compliant companies being one of investment derivatives for the Muslim in the stock market. However, there are no regulation that requires Islamic-compliant companies to disclose information in terms of their compliance within Islamic values and principles. The social responsibility of a company in terms of its *sharia* compliance status is a concern to the society, and there is a demand for the company to disclose more information (Othman et al., 2009). Therefore, *sharia* compliant companies were chosen because limited studies of the disclosure practice of sharia compliant companies. *Sharia* compliant company is a company that fulfilled the *sharia* principles issued by regulators. Most Indonesian papers discuss voluntary disclosure of listed companies on the Indonesia Stock Exchange as their research objects, not specific on Jakarta Islamic Index 70 (Aini, 2015; Sulistyaningsih and Gunawan, 2016; Nainggolan, 2017).

Voluntary disclosure of companies in several countries has been investigated to determine the size of voluntary disclosure of companies. Some researchers have conducted research on several factors that influence the voluntary disclosure of a company including factors of ownership structure, audit firm type, board of directors size and board of commissioners size. However, there are inconsistencies in the results concluded by previous researchers.

This research is a development from the study of Elfeky (2017), namely "The extent of voluntary disclosure and its determinants in emerging markets: Evidence from Egypt". The differences between this research and the prior research are as follows:

1. The research object of this study is the companies listed in Jakarta Islamic Index 70 (JII 70) which consist of Islamic-compliant companies. Meanwhile, the research object of Elfeky (2017) study used the companies listed in Egyptian Stock Exchange which consist of both conventional and Islamic-compliant companies.

2. The independent variables in Elfeky (2017) study are company size, leverage, profitability (ROA), board of directors size, independent director ratio, duality in position, block-holder ownership ratio and audit firm type. Meanwhile, this study uses ownership structure, audit firm type, board of directors size and board of commissioners size as independent variables.
3. The voluntary disclosure index of this study is referring to Othman and Thani (2010) study. Meanwhile, Elfeky (2017) study used the overall extent voluntary disclosure index of Botosan (1997).

From the background explanation above, the writer decided to take a research title as follows:

"**The effect of ownership structure, audit firm type, board of directors size and board of commissioners size on voluntary disclosure of Jakarta Islamic Index 70 listed companies".**

B. RESEARCH QUESTIONS

Based on the description above, the research questions in this study are:

1. Does ownership structure have a positive effect on the voluntary disclosure of *sharia* compliant companies?
2. Does type of audit firm have a positive effect on the voluntary disclosure of *sharia* compliant companies?
3. Does board of directors size board have a positive effect on the

voluntary disclosure of *sharia* compliant companies?

4. Does number of board of commissioners size have a positive effect on the voluntary disclosure of *sharia* compliant companies?

C. RESEARCH OBJECTIVES

The objectives of this study are to examine:

1. Whether ownership structure has a positive effect on the voluntary disclosure of *sharia*-compliant companies.
2. Whether type of audit firm has a positive effect on the voluntary disclosure of *sharia*-compliant companies.
3. Whether board of directors size has a positive effect on the voluntary disclosure of *sharia*-compliant companies.
4. Whether board of commissioners size has a positive effect on the voluntary disclosure of *sharia*-compliant companies.

D. SIGNIFICANCE OF THE STUDY

a. Theoretically

This research is expected to be a reference for subsequent studies that conduct research related to voluntary disclosure of *sharia* compliant companies. In addition, this research is expected to provide input or contribution in the development of economics, especially in the scope of accounting.

b. Practically

For investors, especially those who will invest their asset to a company, this research can add knowledge and insight to choose the company that provides extended information related to company that can be used as consideration in investment decisions.