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THESIS

THE CORRELATION OF THE PROPORTION OF INDEPENDENT COMMISSIONER TO VOLUNTARY DISCLOSURE: THE CASE OF INDONESIAN MANUFACTURING SECTOR

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ABSTRACT

This Study is to examine the relationship between voluntary disclosure and proportion of independent commissioners in Indonesian manufacturing company which is listed in Indonesia Stock Exchange from 2006 to 2009. This research used Lim et al (2007) disclosure index and being adjusted to Indonesian regulation (BAPEPAM-LK regulate No 134/BL/2006). Pearson Correlation Model used as statistical tool to measure the relationship between voluntary disclosure and proportion of independent commissioners and company size as controlling variable. This result found there is no significant relationship between voluntary disclosure and proportion of independent commissioners. After controlling by company size, there is a significant relationship in small company, but not in large company.

Keyword: Independent Commissioners, Voluntary Disclosure, Manufacturing Sectors

CHAPTER I
INTRODUCTION

1.1 Problem Background

Full disclosures of financial information are component of corporate governance framework (OECD, 1999) and regarded as an important indicator of corporate governance quality. Indeed, Beeks and Brown (2005) in Ningsi (2006) find that companies will higher corporate governance quality make more disclosure that is informative.

Sound corporate governance should provide proper motivation for the board and management to pursue objectives that are in the interest of the company and its shareholders and should facilitate effective monitoring. The central objectives of sound corporate governance is that business behave honestly, equitable, and transparently toward their entire stakeholder, employee, customers and suppliers, and society (Patrick, 2001) cited in Ningsi (2006).

Companies' communication is a complex process that in the last decade has evolved from the mandatory reporting of financial information through the voluntary disclosure of financial, non-financial, strategic and other corporate performance data. Corporate disclosure is critical for the functioning of an efficient capital market (Healy and Palepu, 2001).

Accounting information disclosed by the companies is one of the most important information sources for investors and analysis when valuing a company. The modern stakeholders need for more information are more sophisticated, they ask for more information than the one provided by the financial statements. Nowadays, these stakeholders are valuing the company not only by financial numbers but also by its non-financial and strategic performance.

The annual reports are now seeing as the primary source of company information disclosure. Additionally to mandatory information annual reports may also provide voluntary information, so annual reports have became important source for communicating company's financial and non-financial information.

The efficiency of disclosure process is depending upon the need of the stakeholders and of the interest of the management of the company. Hence, disclosure is a crucial element in ensuring the effective allocation of resources in society and diminishing the information asymmetry between company and its stakeholders (Bogdan, *et al*, 2009). Based on Agency Theory, asymmetry of information happen because conflict of interest between management and shareholders.

In the modern-day environment, organizations are characterized by their complexity and the diffuse ownership of stockholders. These characteristics give rise to the agency relationship, as described in Jensen and Meckling (1976), wherein the principal (shareholders) employs the agent (manager) to perform a service on its (their) behalf. In order for managers to effectively manage the organization, shareholders delegate some decision-making authority to them. However, this transfer of decision control initiates the agency problem because managers have incentives to deviate from shareholders' best interests and make decisions that maximize their own wealth as opposed to the shareholders'. They could manipulate accounting numbers and investment policy to increase their remuneration or negotiate contracts for themselves when they know that earnings or stock prices are on the verge of increasing (Shleifer and Vishny, 1997). Like mention above, this inevitable consequence arises because the separation of ownership and control results in information asymmetry between management and shareholders. Management possesses information about the present and likely future performance of the company that is superior to that available to shareholders.

In order to control the agency problem, agency costs (monitoring, bonding and residual loss) are incurred to mitigate the divergence of interest between the principal and the agent (Jensen and Meckling, 1976). One form of monitoring costs used to control the agency problem which is the implementation of Good Corporate Governance is Board of Commissioners.

The Board of Commissioners duty is to make sure the company good corporate governance is running well. They also have function as supervisory board for management that representatively by directors or board of directors.

CHAPTER V
CONCLUSION

5.1 Research Conclusion

The purpose of this research is to get empirical data that board of commissioners size and proportion of independent commissioners have a relationship through the extent of voluntary disclosure in listed manufacture company in Indonesia Stock Exchange.

Using correlation models, the result show that in general there is no significant relationship between proportion of independent commissioners and voluntary disclosure exposes, the level of significance is sufficient. The reason for sufficient statistically significant is because there are many factors that influence voluntary disclosure expose than proportion of independent commissioners.

When company size is included as control variable, there are separations between large and small company. The results show that in large company, there is no significant relationship between voluntary disclosure and proportion of independent commissioners. It means higher proportion of independent commissioners didn't give influence to company voluntary disclosure expose. The reason for not significant is because commonly large company has disclose more information (Mustika, 2006)

However in small company there is significant relationship between voluntary disclosure and proportion of independent commissioners, the level significance is sufficient. It means that voluntary disclosure will be higher if proportion of independent commissioners. The reason for this statistically correlation is because independent commissioners have motivation to disclose more information to protect their reputation (Lim *et al*, 2007). By insisting on more voluntary disclosure, independent commissioners make their value-adding processes transparent to other stakeholders and it signals to the market that they are fulfilling their duties.

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