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Family-owned and State-owned Firms Disclosure: Comparative Analysis of Indonesia Public Firms

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Abstract—This study aims to compare the disclosure between family-owned and state-owned firms in Indonesia Stock Exchange included in LQ45 Index in 2016. The indicator used is the Principle of Disclosure and Transparency in ASEAN Corporate Governance (ACG) Scorecard, and the method used are the qualitative descriptive and mean-comparison test. Besides, further analysis was done by classifying the findings into mandatory and voluntary disclosure. The findings show that overall, the aggregate disclosure of family-owned firms is significantly lower than state-owned firms. The interesting findings that characterize the difference are placed on Quality of Annual Report. It confirms that family-owned firms are more likely to disclose financial than governance disclosure, compared to state-owned firms. This paper motivates the government to put more emphasize on regulation since the information disclosure is crucial to stakeholders.

Keywords—ACG Scorecard, Disclosure, Corporate Governance, Ownership

I. INTRODUCTION

The separation between ownership and control in public companies might create agency conflict between the shareholders (principal) and management (agent). The management, who runs the business, know better information than shareholders, thus can benefit their own interest and expropriate the principal, or in case of a firm with concentrated ownership, they expropriate the minority principal [1]. Thus, Good Corporate Governance can play a role in minimizing the agency conflict. One of the corporate governance mechanisms is by disclosure and transparency. Recently, emphasize on disclosure is beyond the quality of earnings, and include the corporate governance practice [2]. The medium of information disclosure also has been expanded to the internet and creates Internet Financial Reporting.

As an emerging market where investment is still attractive [3], Indonesia has to pay attention to their disclosure practice. Align with this, the government has regulated the mandatory disclosure regulation. One of which is Financial Service Authority (FSA) Regulation or POJK Number 29/04/2016 regarding the Annual Report disclosure and completed by Financial Service Authority (FSA) Letter or SEOJK Number 30/04/2016 regarding the detailed content have to be disclosed on the annual report. Besides mandatory disclosure, there is also voluntary disclosure, which is are any disclosure given by the company not regulated by existing regulation [4]. This disclosure can be arranged and stipulated in some governance guidance. One of which is the ASEAN Corporate Governance Scorecard (ACG Scorecard).

Unfortunately, the level of disclosure in Indonesia seems not in satisfactory level although they are already mandated. Irwanto [5] conducted research regarding the mandatory disclosure in the banking industry in Indonesia. The study found that the level of compliance is very low, only 53%. Further, among 32 banks, only 15 banks published their annual report. Utama [6] also conducted research on disclosure level of public companies in Indonesia, using the list of disclosure by Botosan [7] and found the same conclusion that the level of disclosure is only 41.9%.

In other countries, such as Singapore, study about disclosure and corporate governance was conducted by Eng & Mak [8] Their study found that ownership structure affects the level of voluntary disclosure, where the government ownership increases the likelihood of voluntary disclosure. But this finding is in contrast with Sepasi et al. [9]. Their study found that government ownership does not influence the level of disclosure in the Tehran Stock Exchange. Regarding family ownership, the study conducted by Ho & Wong [10] in Hongkong found that the company that has more family board member has a lower level of voluntary disclosure. In Malaysia, a study conducted by Akhtarudin [11] found that the level of voluntary disclosure is lower in company with more family control.

In Indonesia, most public companies are family-owned firm and state-owned firms [12]. Thus, this paper wants to assess the disclosure and transparency of family-owned firms and state-owned firms in Indonesia. The Guidance used is ACG Scorecard. There's no previous research focused on the direct comparison between state-owned and family-owned firms in Indonesia.

II. LITERATURE REVIEW

2.1 Theoretical Review of Agency Theory

The form of separation between ownership and control in the company creates agency conflict. This is due to an

agent has more information regarding the condition of the company, compared to the principal [1]. This information asymmetry can be in two forms. First is adverse selection, and second is moral hazard. Adverse selection is related to the wrong in decision making due to a limitation of information, while the moral hazard refers to the act of fulfilling their own interest due to opportunities of information asymmetry.

Corporate governance practices can minimize the agency conflict between the principal and agent. One of the corporate governance mechanisms is through disclosure and transparency. Disclosure can reduce the potential agency conflict because disclosure minimizes information asymmetry and decrease the moral hazard. Thus, the principal, consist of minority and majority shareholders, can monitor the agent (management) in managing the company. One of many benefits of higher disclosure level is a lower cost of equity obtained by the firm [7].

2.2 Disclosure Level and Ownership

Several previous studies found that the disclosure level varies on several factors. One of them is ownership factors that determine the level of disclosure. Ali et al. [13] found that family-owned firms, compared to non-family-owned, are less likely to disclose the corporate governance mechanism. This act is in order to reduce the transparency regarding the interference of non-family members. Thus, they have a lower motivation to disclose governance mechanisms.

Chau & Gray [14] conducted research regarding disclosure and ownership among samples in Hongkong and Singapore. The finding was family-owned firms disclose less disclosure above the mandatory disclosure. This is due to less demand for information, compared to firms with wider ownership. Thus, the family-owned firms are less motivated to do voluntary disclosure.

But, those findings are in contrast with findings from Hutton [2]. By examining the sample of family-owned firms, the finding was the disclosure of family-owned firms have higher quality. This is because of family firms faceless agency conflict, as they have more concentrated ownership and face lower agency cost.

In the case of state-owned firms where the major ownership is by government, Sepasi et al. [9] conducted research regarding government ownership and private ownership to the extent of disclosure. The finding was the government ownership do not affect the disclosure quality of firms. Unlike private firms, the government just need to absorb less fund from the capital market than private firms, so they tend to disclose less. This finding is different from the study conducted by Eng & Mak [8] and Jiang & Habib [15], which found that government ownership increases the extent of disclosure. This is due to the increase in accountability and legitimizes public expectations.

In Indonesia, the research regarding family ownership and disclosure has been conducted by Darmadi & Sodikin [12]. They found that family control has a significant negative relationship with the extent of information disclosure. It shows that family firms have low motivation to conduct disclosure. This is because disclosure of information might be exposing some private benefit that the family member can enjoy by controlling the firms.

2.3 Disclosure Regulation and Guidance in Indonesia

ASEAN Corporate Governance (ACG) scorecard was developed by ASEAN Capital Market Forum in 2011. The 4th Principle is “Disclosure and Transparency." This principle contains 9 sub-principles [16]. Several indicators on ACG Scorecard belong to mandatory disclosures regulated in Indonesia, like Financial Service Authority issued POJK 29/04/2016 regarding the content of the annual report, and POJK No.08/04/2015 regarding the content of the company website. Besides, the indicators also contain item belongs to voluntary disclosure. Among 31 Indicators in principle of “Disclosure and Transparency," 20 of them are already mandatory, and the rest can be considered as a voluntary disclosure.

Based on the previous study, we define that there's still inconsistent result during disclosure and ownership. We try to fill this research gap by directly comparing the state-owned and family-owned firms using indicators in Principle of Disclosure and Transparency in ASEAN Corporate Governance, and seeing the result in emerging countries like Indonesia.

III. RESEARCH METHOD

The sample used in this research are top family-owned and state-owned firms from LQ45 Index in Indonesia Stock Exchange (IDX). The LQ45 Index is consist of firms with high liquidity; thus, they are expected to disclose adequate information than other company. The family firm is defined by a firm which the ultimate owner is founding family and maintain their position in management [17]. Since the number of state-owned belongs to LQ45 Index in 2016 are 10 firms, we chose 10 largest family-owned firms.

We conduct scoring by checklist indicators in “Principle of Transparency and Disclosure” on ACG Scorecard. Each item is scored 1 for “disclose” and 0 if “not." After getting the total score for each company, we run the data using STATA 14. First, we test for normality and homogeneity. After both assumptions fulfilled, we use mean-comparison test (t-test) to check if the difference in score is significant.

Based on the score of each group of firms, we get the mean score of family-owned and state-owned. The result of normality test for the score obtained. This can be seen from Picture 1 where Shapiro-Wilk test results in a score of Prob>z is 0.46228 and 0.83806 are above 5% of alpha. Thus, the data fulfill normality. Then, we conduct a

homogeneity test using a variance comparison test, and the result is 0.7476, which is more than 0.05, that indicate the data fill homogeneity assumption.

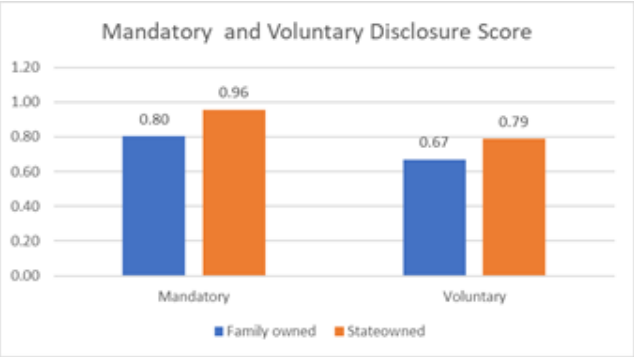
IV. RESULT AND DISCUSSION

In this section, we present an empirical result regarding the difference in disclosure of family-owned and state-owned based on ACG Scorecard indicators. First, we focus on exploring the difference in aggregate level and breaking down to voluntary disclosure and mandatory disclosure level. Then we try to explore the patterns and cause of the difference by literature review and further exploration of other company's proxy disclosure.

The assumption of normality and homogeneity are fulfilled, so we proceed using mean-comparison test. The mean of family-owned firms' disclosure is 76.13, while the mean of state-owned firms' disclosure is 90.32. The score of Prob>z is 0.0002, which is less than alpha 0.05, and difference sign is negative (-). Thus, we find that the disclosure of the family-owned is significantly lower than the state-owned firm.

We also classified each indicator of ACG Scorecard into mandatory and voluntary disclosure in order to get insight the level of compliance. The score was for 0.80 family-owned firms and 0.96 for state-owned firms. Thus, we can see that the compliance level is quite high, although not full compliance. Regarding voluntary disclosure, the score in family firms is lower than state-owned firms. This may be explained by findings from Jiang & Habib [15] regarding responsibility and accountability of government which operates for not only profit, to disclose more information to the public.

Fig.1: Score of Mandatory and Voluntary Disclosure



We try to explore what makes it different by comparing the pattern of disclosure in each sub-principle, as can be seen in Fig.2. From the result, the level of disclosure in each sub-principle is quite similar, except for the sub-principle "Quality of Annual Report" and "External Auditors and Auditor Report" disclosure.

Fig. 2: Score of each sub-principles Disclosure and Transparency

Disclosure and Transparency	State-owned	Family-owned
Transparent Ownership Structure	0.98	0.90
Quality of Annual Report	0.89	0.58
Disclosure of Related Party Transacions (RPTs)	0.55	0.50
Directors and Commissioners Dealing with the Shares	0.90	0.90
External auditor and Auditor Report	1.00	0.40
Medium of Communications	0.98	0.95
Timely Filling Release Annual Financial Reports	1.00	0.97
Company Website	0.80	0.72
Investor Relations	1.00	1.00

The score of the Statement Full Compliance in Corporate Governance Code is also different. None of the family-owned firms fulfill criteria mandated by the ACG Scorecard. Again, this regulation is already mandatory as mandated in POJK 29/04/2016. This finding is consistent with Ali et al. [13]. He found that compared to non-family firms, family-owned firms are less likely to disclose the governance mechanism. They have the incentive to reduce this disclosure in order to get family members on board without the interference of non-family members.

Further, the significant difference is also placed in disclosure of Corporate Objective. In this ACG Scorecard criteria, the corporate objective is not only vison or mission but also regarding the corporate performance target in long-terms; thus, it belongs to voluntary disclosure. Only 30% of the sample disclose the performance target. This is because firms have a trade-off between disclosing information or avoid the competitors that will mimic the strategy [19]. Thus, family-owned firms hold information to maintain their competitiveness among competitors. It's also confirmed that, in all of the samples of family-owned firms, 100% of the firm has one family members sit on the board of commissioners and board of directors that can play the role to control the information disclosure.

Besides the sub-principles "Quality of Annual Reports," the gap of disclosure between family-owned and state-owned firms is also happening in sub-principle "External Auditor and Auditor Report," which belongs to voluntary disclosure. This is due to disclosure of audit fee and non-audit fee; we're a family firm's score is significantly lower than the state-owned firm. This finding shows that family-owned firms are less likely to disclose information regarding governance.

This paper is focusing on the difference of disclosure on family firms and state-owned firms. But, in this section, we also would explain briefly why there's still low score in “Disclosure of Related Party Transaction” and “Company Website” as can be seen from Table 1. Regarding the “Disclosure of Related Party Transactions," the voluntary aspect was a disclosure of party who approve the material Related Part Transactions (RPTs). It seems both of family and state-owned firms do not have the consciousness to disclose. Other low scored sub-principle is “Company Website," where it seems both family and state-owned firms could not empower their company website. For instance, commonly is a failure to publish minutes of a meeting of General Meeting of Shareholders on the website.

V. CONCLUSION

This study directly compares the disclosure between state-owned and family-owned using top firms in Indonesia Stock Exchange. Based on this study, it can be seen that there's a significant difference in disclosure by family-owned and state-owned firms, where family-owned firms are likely to disclose less than state-owned firms.

The average score of state-owned firms is higher than the family-owned firms. After breaking down, mandatory and voluntary disclosure is better than family-owned firms. This is regarding the accountability of the government that they operate in an area that not only focusing on profit but also welfare. Thus, disclosure is a crucial thing.

While the level of disclosure in family-owned firms is lower than state-owned firms, in term of mandatory disclosure and voluntary disclosure, the level of family-owned firms is significantly lower. The interesting fact is although it’s already mandatory, the detailed remuneration disclosure and corporate governance statement is not disclosed by all the samples of family-owned firms. This is maybe because the family-owned firms do not want their private benefit is exposed. So, they are more willing to disclose financial information than the governance mechanism.

This study provides suggestion to government to enforce more disclosure, especially after knowing the tendency of a family-owned firm to less likely disclose governance mechanism. To an investor, this study giving a big picture of what to be examined when examining the family-owned firm disclosure. Further research may be conducted using other indicators, not only using ACG Scorecard, and increasing the sample size to increase the representativeness.

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