Mandatory and Voluntary Disclosure of Annual Report on Investor Reaction

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ABSTRACT

This study aims to obtain empirical evidence about the influence of mandatory disclosure, voluntary disclosure on investor reaction to either partially or simultaneously. The study was conducted on 38 manufactured companies listed on the Indonesian Stock Exchange. There are five variables that mandatory disclosure, voluntary disclosure as the independent variable, cash flow operating activities (AKOp), cash flows investing activities (AKIn), cash flows financing activities (AKDa) as the control variable and the investor reaction was measured by using trading volume activity as the dependent variable. The result indicates that mandatory disclosure partially affect the investor reaction mandatory disclosure, voluntary disclosure simultaneously affect the investor reaction. Limitations are mandatory disclosure, voluntary disclosure, cash flow operating activities (AKOp), cash flow investing activities (AKIn), cash flow financing activities (AKDa) are less able to measure the volume of stock trading prediction of the future.

Keywords: Investor Reaction, Mandatory Disclosure, Voluntary Disclosure, Cash Flow Operating Activities (AKOp), Cash Flows Investing Activities (AKIn), Cash Flows Financing Activities (AKDa)

JEL Classifications: M00

1. INTRODUCTION

Conceptually disclosure is an integral part of the financial reporting and disclosure technically is the final step in the accounting process in the form of presentation of information in the form of financial statements. One of the theoretical issues contained in the disclosure is a disclosure of how much and what information is disclosed. How much of the information disclosed by the company in the financial statements is influenced by various factors. There are two factors that affect the disclosure and transparency, the financial aspects and aspects of governance (Bushman et al., 2004).

The existence of a new information in addition to the financial statements will form a new confidence among investors. Companies that have revealed more information is needed the investor will earn the trust of the community. Increased public confidence in the companies that have done the disclosure is expected to drive the increase in stock price and sales volume.

Disclosure in the issuer’s annual report can be grouped into two parts, namely the mandatory disclosure and voluntary disclosure. The disclosure required is disclosure required by law. Voluntary Disclosure is the free choice of management company for decision-making by the users of annual reports. Structure settings applied in Indonesia using dual governance structure is a structure that is regulated by the Capital Market Supervisory Agency (Bapepam) and the Indonesian Institute of Accountants. Every public company are required to prepare financial statements audited by a public accountant as a form of accountability, especially to the owners of capital. Securities and Exchange Commission requires the elements that must be disclosed in the financial statements of public companies in Indonesia.

The reaction volume dependent on the reaction rates and the relationship between price and trading volume reaction closer to dependency rather than closeness of their relationship (Bushman et al., 2004). This study aimed to determine the effect of mandatory
and voluntary disclosure in annual reports to the reaction reflected investors through stock trading volume. An information can be said to have value in order for the investor if the information is reacting to conduct transactions in the capital market. It can be seen through changes in the stock price and trading volume.

This study aims to determine how much influence the level of adherence to mandatory disclosure and voluntary disclosure to the reaction of investors in the annual report that manufacturing companies listed in Indonesia Stock Exchange (IDX). Manufacturing company selected as the material for the analysis of this industry has a better disclosure compared with other industries.

2. THEORETICAL FOUNDATION OF THE STUDY

2.1. Disclosure of Financial Statements

Conceptually disclosure is an integral part of financial reporting. Disclosure is the final step in the accounting process in the form of accounting presentation in the form of a full set of financial statements (Suwardjono, 2010). Statement of Financial Accounting Concept No. 1 states that financial statements should present information that is useful to investors and potential investors, creditors and other similar users are rational. Such information should be understood by those who have business and economic insights. Annual reports are an excellent medium for conveying corporate disclosure consisting of financial and non-financial disclosure.

2.2. Mandatory and Voluntary Disclosure

Disclosure of the annual report submitted companies are divided into two mandatory disclosure and voluntary disclosure. Express mandatory disclosure of information to be presented in the financial statements as set Securities and Exchange Commission. Voluntary disclosure conveys information provided voluntarily by companies outside the mandatory disclosure. Voluntary disclosure is a disclosure of information beyond the minimum requirements of the applicable capital market regulations. The company has the discretion to make voluntary disclosures in the annual report that gave rise to the diversity or variation of inter-company voluntary disclosure.

All public companies are required to meet the minimum disclosures, they differ substantially in terms of the amount of additional information that is disclosed to the capital markets. One way to improve the credibility of the company is through voluntary disclosure widely and assist investors in understanding the business strategy management. Companies that make voluntary disclosures freely choose to provide other accounting information deemed relevant in supporting decision-making by users of annual reports (Nuswandari, 2009).

2.3. Signaling Theory

Signaling theory states that the company executives who have better information about the company will be compelled to pass the information to potential investors that the company’s stock price increases. The urge companies to provide information because there is asymmetry of information between the company and with external parties.

2.4. Investor Reaction

Tests on the market reaction through the indicator price and trading volume associated with the testing of the hypothesis of market efficiency. An efficient market will be reflected in the rapid investors reacted to the entry of new information, if investors consider such good news then there will be a reaction of investors is reflected by an increase in stock price and trading volume. Efficient market conditions if the market reacts quickly and accurately to achieve a new equilibrium price that fully reflects the information available.

3. CONCEPTUAL FRAMEWORK

Information to assess the quality of the company’s performance in the present and predict the likelihood of that happening in the future be required by stakeholders contained in the annual report presented the company. The information presented is composed of mandatory disclosure based on the applicable regulations and standards and voluntary disclosure is based on the theory of signal where the management is always trying to reveal private information which he considered very attractive to investors. Several academic studies also showed that the greater the company then the more voluntary disclosures submitted (Suwardjono, 2010).

The dependent variable in this study is the reaction of investors in the form of stock trading volume (Y) as measured by indicators trading volume activity (TVA) is an instrument used to see the reaction of investors to the information through the movement parameters stock TVA. Observation period for calculating the index TVA of each sample company accumulated during 11 days, from day-to-day –5 to +5 date of publication of the annual report.

The independent variable in this study is a list of mandatory disclosure (X1) and voluntary disclosure (X2) conducted by the company in its annual report as measured by the index of disclosure. Disclosure shall be measured by the instrument of the Securities and Exchange Commission. Mandatory disclosure indicated the degree of compliance with mandatory disclosure index. Control variables included in the model of this research is an indicator used to measure the reaction of investors that cash flow from operating activities (AKOp) (K1), cash flows from investing activities (Akin) (K2), cash flows from financing activities (AKDa) (K3).

Operating activities are all transactions relating to the earnings reported in the profit (loss). Details of the activity and the value of cash flows from operating activities can be seen in the consolidated financial statements precisely in sheet cash flows. Investing activities are the acquisition or disposal activity of long-term
assets (current assets) and investments that are not included in the definition of cash equivalents. Details of the activity and the value of cash flows from investing activities can be seen in the consolidated financial statements precisely in sheet cash flows of the respective companies.

Financing activities are activities that result in changes in the amount and composition of liabilities (debt) and long-term capital. Details of the activity and the value of cash flows from financing activities can be seen in the consolidated financial statements of the respective companies.

H1: Disclosures required significantly affect the volume of stock trading

H2: Mandatory and voluntary disclosure significantly affect the volume of stock trading.

4. METHODOLOGY

The data used in this research is secondary data obtained in the IDX. Observation unit which is the object of this study is mandatory and voluntary disclosure of companies listed on the stock exchange in the company’s annual report, the volume of stock trading for 11 days, which is 5 days prior to the date of publication of the annual report, at the time of publication and 5 days after the date of publication of the annual report.

Data were collected using the method of documentation, by collecting, recording, and reviewing secondary data such as annual reports are voluntary and mandatory disclosure index and trading volume are taken from annual reports of issuers of listed manufacturing companies and published by IDX.

5. RESULTS AND DISCUSSION

In this study testing the normality of the data is done by the Kolmogorov-Smirnov One Sample Test. Variable Volume (0.000), Voluntary (0.001), AKOp (0.000), Akin (0.000), AKDa (0.000).

To get a better test results and valid then steps must be done is to transform the raw data into a form the natural logarithm of each of the data to be tested. The test results of normality after the natural logarithm transformation: Variable Volume (0.163), Voluntary (0.060), AKOp (0.034), Akin (0.930), AKDa (0.664).

The method used to detect the presence of multicollinearity in this study is the variance inflated factor (VIF). VIF results in all study variables (Mandatory, Voluntary, AKOp, Akin, AKDa) < 10 then there is no research data classified multicolinearity disturbance in the regression models. Autocorrelation is detected by the Durbin Watson tables for stock trading volume of 1.936 which is in the region 1.936 <DW < 2 which means that the regression model contains no autocorrelation (Qureshi et al., 2014).

Test results showed the R value of 0.545 in the research model and coefficient of determination of 0.264. This suggests that the ability of the independent variables in explaining the dependent variable was 26.4%. Still there is a 73.6% variance dependent variable that has not been able to be explained by the independent variables in the research model. In other words, 26.4% volume (the volume of stock trading) is described by the disclosure mandatory and voluntary disclosure the rest is explained by other factors not included in the research model. This shows that there are many other factors outside factors mandatory disclosure and voluntary disclosure affecting the stock trading volume. Another factor that can affect the trading volume of which is cash flow from operating activities (AKOp), cash flows from investing activities (Akin), cash flows from financing activities (AKDa) were used as independent variables (Nuswandari, 2009). The significance level of disclosure required by 0.303, which means disclosure shall not significantly affect the volume of stock trading, it has no significant effect on the mandatory disclosure of stock trading volume.

The result of partial test the conclusion that mandatory disclosure partially variable does not significantly affect the volume of stock trading. This means that if public companies are required to complete disclosure is not necessarily affect the increase in trading volume. That is because the provisions of the issuer or the submission of annual reports of public companies has been regulated in Bapepam XK6 form of liability, the form and content of annual reports. Disclosures required to complete performed by the issuer or public company is an obligation that must be carried out without affecting the company’s stock trading volume.

The results of other tests it is known that the value of the F test of 9.125 is smaller than F table at 2.29 with a significance level of 0.000. This indicates that the variable mandatory disclosure and voluntary disclosure simultaneously or jointly affect trading volume. Indicate that there is a significant effect of mandatory disclosure and voluntary disclosure for stock trading volume.

Consists of voluntary disclosure of information in the event of corporate actions such as stock splits, stock merger, stock dividends, bonus shares and reduction of par value then it must add a description of the date of execution of corporate actions, dividends, bonus shares and a decrease in the value of shares, the number of shares outstanding before and after the corporate action and stock prices before and after the corporate action, the information in the event of a change in the composition of the board of commissioners and or directors that occurred after the fiscal year ended until the deadline for the submission of annual reports, the arrangement included in the annual report is the arrangement of the board of commissioners and or the last or previous directors, information about the administrative sanctions imposed on the issuer or public company, commissioners and directors by capital market authorities and other authorities in the last fiscal year, information about the code of ethics and corporate culture, a description of the program ownership by employees and management conducted publicly listed companies, among others, the amount, term, terms of employees and management are entitled, as well as the exercise price, the information regarding the violation reporting system (whistleblowing system) in issuers or public companies which could hurt the company or stakeholders.

Simultaneous test results lead to the conclusion that the variable mandatory disclosure and voluntary disclosure together have a
significant effect on stock trading volume. This means if a public company disclosure is mandatory, voluntary and properly, it will give added advantage to the company or in other words, investors take advantage of the information depends on the disclosure of the company through an annual report that reflected more the volume of stock trading for companies that disclose mandatory disclosure accompanied by a voluntary disclosure.

Trading volume amounted to 11.760 shares of manufacturing companies, if not there is a change in the variable value Mandatory, Voluntary, AKOp, Akin, AKDa. Constants of 11.760 means contribution of independent variables other than the study variables that affect trading volume amounted to 11.760.

6. CONCLUSION

This study tried to determine the effect of mandatory disclosure, voluntary disclosure, cash flow operating activities (AKOp), cash flow investing activities (Akin), cash flow from financing activities (AKDa) on stock trading volume (Volume) manufacturing company listed in IDX. Mandatory disclosure and voluntary disclosure simultaneously shown to have a significant influence on stock trading volume, as it has a lower level of significance than specified. This indicates that investors see mandatory disclosure and voluntary disclosure as consideration in investing in a particular company.

Mandatory disclosure partially not have a significant effect on stock trading volume. This suggests that investors perceive the disclosure shall be the basic things required to be reported to the company to the public so as not to affect the volume of stock trading. Limitations of this study is the variable mandatory disclosure, voluntary disclosure, cash flow operating activities (AKOp), cash flow investing activities (Akin), cash flow from financing activities (AKDa) are less able to measure the volume of stock trading prediction of the future.

REFERENCES


