Measuring The Impact of IFRS Convergence and Firm Characteristics on Corprate Mandatory Disclosure

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Abstract

Indonesia formalised to converge IFRS that have been developed by International Accounting Standard Board (IASB), effectively as of January 1, 2012. This study examines if the IFRS convergence resulted in an improvement of financial reporting quality, in particular in the degree of corporate mandatory disclosure. In addition, it investigates the impact of firm characteristics on the corporate mandatory disclosure in Indonesian environment.

Findings reveal that the average mandatory disclosure level was 85.78%, while the maximum disclosure level was 98.80%. Results indicate that IFRS convergence has significantly positive effect on corporate mandatory disclosure. Moreover, the results indicated that profitability, leverage and ownership concentration have significantly positive effect on the corporate mandatory disclosure. While liquidity and corporate age did not have effect on the corporate mandatory disclosure. Further, the leverage has significantly negative and significaneffect on the corporate mandatory disclosure.

Keywords: *IFRS Convergence, Firm Characteristics, Corporate Mandatory Disclosure.*

1. Introduction

Indonesia as one of emerging economy in South-East Asia started to follow International Accounting Standard (IAS) by IASC since 1995. As a G-20 member, Indonesia has made agreement in G-20 forum in Washington D.C., November 15th 2008 to converge IFRS and national accounting standard (Standar Akuntansi Keuangan - SAK). In 2006, IAI (Indonesia Institute of Accountants) has made a roadmap to accelerate the convergence project. Regulation of financial reporting in Indonesian is carried out by the Indonesian Financial Accounting Standards Board (Dewan Standar Akuntansi Keuangan – DSAK IAI) through a mandate from the Indonesian Institute of Accountants (Ikatan Akuntan Indonesia or IAI). Since making the public commitment to support IFRS Standards in 8 December 2008, the DSAK IAI has been converging the SAK towards IFRS Standards. As a result of the first phase of the IFRS convergence process, SAK as at 1 January 2012 is substantially in line with IFRS Standards as at 1 January 2009.

One of the major intended purposes of the convergence of IFRS was to enhance financial reporting through the requirements of a set of high quality standards. The high-quality standards and reporting practices is essential to provide users of financial information (Biobele *et. al*., 2013). Presence of high quality accounting standards should increase the possibility of having more adequate information disclosure (Shehata *et al*., 2014). Accordingly, it is expected that after the release of the comprehensive set of the national accounting standard (Standar Akuntansi Keuangan - SAK), information disclosure would be enhanced. Deficiencies in such standards and practices cause inconsistency, incomparability, reduced transparency and a lack of trust in the information (Aljifri *et al*., 2014). This occurs due to the differences in financial accounting reporting practices that lead to misunderstanding problems and uncertainties (Owusu-Ansah, 1998). However, the users of the financial statements do not have access to the accounting records, and users rely solely on the information disclosed in the financial statements to make informed decisions (Mensah, 2015:189).

The quality of information disclosed in corporate annual reports has received a great deal of attention in the last four decades, mostly in developed countries (Aljifri *et al*., 2014). Empirically, most of previous studies explored the relationship between voluntarily disclosure and firm characteristics such as industry, size, profitability, liquidity, ownership diffusion, audit quality, leverage, internationality, and age. However, many empirical studies that examined this issue were conducted in countries with highly developed markets, and little attention was given to emerging markets, especially in regarding with mandatory disclosure. This study was prompted by the need to determine the effect of IFRS convergence on developing countries. As the focal point of this paper is on corporate mandatory disclosure, it would be beneficial to comprehend why companies disclose information mandatorily, especially for the accounting information's users and regulators and also for accounting policy.

This study examines if the IFRS convergence resulted in an improvement of financial reporting quality, in particular in the degree of corporate mandatory disclosure of financial reporting. In addition, it investigates the impact of firm characteristics on the corporate mandatory disclosure in Indonesian environment. The present paper seeks to fill this gap by testing a set of hypothesis on the influence of several factors on the level of mandatory information disclosed by a sample to Indonesia companies in their financial statements.

This paper will contribute to the growing literature on the impact of IFRS convergence and firm characteristics on corporate mandatory disclosure. The findings of the study would be of immense interest to listed companies, investors, and those involved in standard setting processes.

The remainder of this paper is organized as follows: Section 2 reviews literature review and research hypothesis. Section 3 outlies the research method employed in the study. Section 4 describes the empirical results and finally, section 5 summarizes the main conclusions and implications of the paper and discusses its limitations.

2. Literature Review and Research Hypothesis

2.1. Agency Theory

In a public company, there is a clusters of contracts as non-controlling owners, controlling owners, managers, board of directors and creditors (Jensen & Meckling, 1976). Stakeholder acts as principal and firms' management acts as agent (Jensen & Meckling, 1976). The agency theory suggests that where there is a separation of ownership and control of a firm, the potential for agency costs occurs because of conflicts of interest between the contracting parties. It is believed that agency problems will be higher in the widely held companies because of the diverse interests between contracting parties (Ghazali & Weetman, 2006). Thus, the widespread of ownership causes asymmetry of information to occur between companies and their shareholders.

The primary shareholders have substantial power and incentive in overseeing the management as their wealth is affected by the firm's financial performance (Jensen & Meckling, 1976). However, Fama & Jensen (1983) claimed that when ownership is dispersed, it may cause conflicts between the principal and the agent. Thus, in order to mitigate the problem occurs, the shareholders should take part to monitor and supervise the activities that could potentially cause the aforementioned problems

(Shleifer & Vishny, 1986). Therefore, managers are expected to disclose more information in annual reports as a way to reduce the agency costs from the monitoring activities.

2.2.Corporate Mandatory Disclosure

The disclosure index may include both mandatory and voluntary information items since both forms of disclosure result from social-system processes (Archambault & Archambault, 2003). Mandatory disclosure is required by statute, professional regulations and listing requirements of stock exchanges. All disclosures of financial items that are required by the regulations of stock exchange and/or the standards of accounting in the financial reports are classified as mandatory disclosure (Alsaeed, 2006). On the other side, revealing financial and non-financial information on the operations of the company when there is no legal requirement for it is regarded as an act of voluntary disclosure (Alsaeed, 2006).

Shehata *et al*. (2014) identified companies' disclosure level after the compliance with the newly issued Egyptian Accounting Standards in 2006, and assessed the relationship between firm characteristics and mandatory disclosure level in the Egyptian environment. The results indicated that the average disclosure level among Egyptian companies investigated was 74%, while the maximum level was 83%, which is considered low as for mandatory disclosure. This indicates the need for regulatory agencies to start enforcing laws that assure the compliance with mandatory requirements.

2.3.IFRS Convergence

The global adoption of International Financial Reporting Standards (IFRS) has been one of the most momentous events in financial reporting sector. In 2012, the Indonesian Financial Accounting Standards Board (Dewan Standar Akuntansi Keuangan – DSAK IAI) required all the Indonesian entities to apply IFRS convergence. Shehata *et al*. (2014) argued that there is a demand for regulatory agencies to start enforcing laws that assure the compliance with mandatory requirements. Klimczak (2011) found that companies which adopted IFRS are usually larger, more mature and diversified than companies which did not have to adopt the IFRS. The finding of Ghazali & Weetman (2006) are consistent with investors expecting the benefits associated with IFRS adoption in Europe to exceed the expected costs. These results indicate that investors expected net benefits associated with increases in information quality, decreases in information asymmetry, more rigorous enforcement of the standards, and convergence. Daske & Gebhardt (2006) conclude that the quality of disclosures had improved under IFRS in Austria, Germany and Switzerland. Daske & Gebhardt (2006) stated that the IFRS cause significant changes in accounting amounts, their properties and correlation coefficients with market prices. IFRS accounting numbers tend to better reflect underlying, value-relevant economic factors (Iatridis, 2010). The IFRS improves the overall quality of accounting information and reduces information asymmetry (Ashbaugh & Pincus, 2001). From the foregoing the following hypothesis will be tested:
H1: IFRS convergence will significantly affect the corporate mandatory disclosure.

2.4. Firm Characteristics

The firm characteristics is essential for investor to understanding the factors influencing managers' decisions regarding disclosure issue, and how such understanding can be beneficial in predicting disclosure levels (Bazine & Vural, 2011). The firm characteristics in this paper include to liquidity, profitability, leverage, company age listing on stock exchange, and ownership concentration.

2.4.1 Liquidity

Liquidity ratios are used to assess how well place a firm is to pay off its short-term debt obligations (Mensah, 2015). In general, the greater the coverage of liquid assets to short-term liabilities the better as it is a clear signal that companies pay its debts that are coming due in the near future and its ongoing operations (Mensah, 2015). Aljifri *et al.* (2014) stated that the assessment of a firm's liquidity is an important issue for those who use financial statements to judge the solvency of the firm. Liquidity is of interest to regulatory bodies as well as to investors and lenders. Companies with high liquidity levels are more likely to disclose more information to show their superior performance to investors, regulatory authorities and lenders, that companies can fulfill their short term obligations (Shehata *et al*., 2014). Also, liquidity is perceived to be associated with a strong financial position and firms with high liquidity ratios are expected to disclose more information (Wallace *et al*., 1994). Cooke (1989) argued that the soundness of the firm as portrayed by high liquidity is associated with greater disclosure level.

The finding of previous studies is mixed. Empirically tested by Gelani *et al.* (2011) showed that liquidity has a positive effect on disclosure level. The empirical tests between mandatory disclosure and firm characteristics indicated that liquidity had a significant negative relationship with disclosure level (Shehata *et al*., 2014). According to Mensah (2015), companies with low coverage rate should raise a red flag for investors as it may be a sign that companies shall have difficulty meeting running its operations, as well as meeting its obligations. It is therefore possible that firms in a secure financial position will wish to signal this to investors by way of disclosure. Alsaeed (2006) concluded that companies with low liquidity levels may also disclose more information to avoid shareholders claims, and to prove that management is aware of the company's problems. The inability of firms to meet its current obligations may lead to bankruptcy because a default in payment of interest and principal to the lenders occurs. To mitigate these fears, firms are willing to disclose more information (Wallace & Naser, 1995). Wallace *et al.* (1994) found a significant negative association between liquidity and disclosure level for unlisted Spanish companies. Empirically, when liquidity has a negative significant relationship with disclosure, companies disclose less information as liquidity level increases (Naser *et al*., 2002). However, Mensah (2015) indicated that there is no relationship between liquidity and disclosure level. From the foregoing the following hypothesis will be tested:
H2: Liquidity will significantly affect the corporate mandatory disclosure.

2.4.2.Profitability

According to Soliman (2013), there is a general proposition that the willingness of firms to disclose information is positively related to its profitability. Similarly, management of a profitable company wishes to disclose more information to the public to promote positive impression of its performance (Ghazali & Weetman, 2006). Inchausti (1997) stated that managers of very profitable firms will disclose more information, such as financial ratios, in order to support compensation arrangements and the continuance of their positions. High profitability might force a company's management to disclose more information to show the public how companies were performing well, in addition to clarifying how management maximized shareholders' value to increase management compensation (Sighvi & Desai, 1997; Alsaeed, 2006). When profitability is high, management is more willing to disclose detailed information, however, unprofitable firms will be less inclined to release more information to hide their poor performance (Wallace & Naser 1995).

The previous studies investigated the association between profitability and disclosure level and the result inconsistent. Mensah (2015) found that there is a positive correlation between profitability and level of disclosure. Similarly, Wallace *et al.* (1995) and Singhvi & Desai (1971) found a significant positive association between profitability and the level of corporate disclosures. However, Wallace & Nasser (1995) observed a significant negative relationship between profitability and the level of corporate disclosures. Meanwhile, Gelani *et al.* (2011) found out that profitability have no effect on mandatory disclosure level. As performance could serve as a yardstick for the information asymmetries between management and shareholders, thus, the direction of the relationship is unclear. Inchausti (1997) suggested that there is no evidence of relationship between disclosure and profitability in Spanish firms. From the foregoing the following hypothesis will be tested:
H3: Profitability will significantly affect the corporate mandatory disclosure.

2.4.3 Leverage

Financial leverage is related to the extent to which firms rely on debt financing rather than equity (Ross *et al*., 2010). Financial leverage can be used to determine the probability that the firm will default on its debt contracts. Firms with high debt equity will become unable to fulfill its contractual obligations and can lead to a higher probability of insolvency and financial distress. The other side, debt is an important form of financing, and provides a significant tax advantage because interest payments are tax deductible. Gelani *et al.* (2011) stated that there is a significant relationship between disclosure and leverage in that disclosure affects debt capacity and equity financing, and leverage requires disclosure in order to reduce agency and information asymmetry costs.

Firms with high debt equity may have more incentives to disclose more financial information to suit the needs of their creditors (Mensah, 2015). Such firms are therefore expected to be monitored more by financial institutions which drive them to disclose more than firms with low debt equity. Similarly, Shehata *et al.* (2014) suggested that companies depending on debts should satisfy the needs of creditors through disclosing more information about the performance of companies. Accordingly, companies with high leverage levels are likely to disclose more information than companies with low leverage.

Several studies have examined the association between the debt equity ratio and the level of disclosure and yield a mixed results. Dashti *et al. (2014)* indicated that financial leverage have significant positive effect on voluntary disclosure index. Camfferman & Cooke (2002) found out that leverage will affect positively the level of disclosure in Netherlands, but no relationship in UK. The studies of Hossain *et al.* (1994) and Ahmed & Nicolls (1994) found a positive relationship between the debt equity and the level of disclosure. Shehata *et al.* (2014) suggested that leverage proxied by debt to equity ratio has a negative insignificant relationship with disclosure level. Similarly, the findings of the following studies are consistent with this result: Haniffa & Cooke (2002), and Wallace *et al.* (1994). Others studies as Archambault & Archambault (2003), Wallace & Naser (1995) and Hossain *et al*. (1994) found out that

leverage will not affect the level of disclosure. From the foregoing the following hypothesis will be tested:
H4: Leverage will significantly affect the corporate mandatory disclosure.

2.4.4. Company Age Listing on Stock Exchange

Elsakit & Worthington (2014) confirmed that company age listing on stock exchange entails firms to disclose more information to meet the requirements set in such market, and satisfy investors need of adequate and suitable information for making informed decisions. Galani *et al.* (2011) argued that older companies are more likely to disclose information than new one, because of the ease and low cost of collecting and analysing data, presence of track records for old companies, and companies' stability in a market. Old firms might have improved their financial reporting practices over time (Alsaeed, 2006). Old companies try to enhance their reputation and image in the market (Akhtaruddin, 2005). Owusu-Ansah (1998) stated that young companies are not likely to disclose full information about their financial results and position, because this may prove to be detrimental if sensitive information is disclosed to the established competitors. Owusu & Yeoh (2005) explained that younger companies have some problems as follow: (a) younger companies may suffer competitive disadvantage if companies disclose certain items such as information on research expenditure, capital expenditure, and product development; (b) the cost and the ease of gathering, processing, and disseminating the required information. These costs are likely to be more onerous for younger companies than for their older counterparts; (c) younger companies may lack a 'track record' to rely on for public disclosure and therefore may have less information to disclose or less rich disclosures.

The empirical results of the relationship between company age and corporate disclosure are mixed. According to Shehata *et al*. (2014), company age reveals a negative insignificant relationship with disclosure level, as in Akhtaruddin (2005) and Alsaeed (2006). While Soliman (2013) argued that company age do not have any significant association with voluntary disclosure level. Accordingly, the following hypothesis is formulated:
H5: Company age will significantly affect the corporate mandatory disclosure.

2.4.5 Ownership Concentration

The ownership concentration is an essential variable to explain the variability of company disclosure (Mensah, 2015). Aljifri (2014) stated that the demand for information is expected to be greater when a high proportion of shares is held by foreign investors. Government ownership appears to significantly impact quality voluntary disclosure creation (Al-Janadi *et al*., 2013).

The empirical results of the relationship between ownership concentration and corporate disclosure are mixed. According to Mensah (2015), there is a significant negative relationship between ownership concentration and the quality of financial ratio disclosure. This means that under a higher level of ownership concentration less quality financial ratios are disclosed. Dashti *et al. (2014)* indicated that sum of ownership percentage of stockholders, as a criterion of ownership concentration, has negative impact on the voluntary disclosure index. Hossain *et al.* (1994) found a negative relationship between ownership structure and voluntary disclosure companies.

Haniffa & Cooke (2002) noted a positive relationship between the number of stockholders and disclosure quality. Singhvi & Desai (1971) found a positive relationship existing between the number of stockholders and disclosure quality, and this could be explained by a number of factors. Firstly, companies that have many stockholders could attract the public better. As a result, these companies would be more familiar with the stockholders and the analysts' demands for better information disclosure. Secondly, by having many stockholders, the pertinent companies, may disclose more and thus, this reduces the authorities' excessive demands. Thirdly, companies also disclose information to increase their securities' marketability.

Naser *et al.* (2002) and Wallace *et al.* (1994) could not document any significant relationship between dispersed ownership structure and financial reporting disclosure quality. Akhtaruddin (2005) could not find a relationship between ownership structure and voluntary disclosure companies.Thus, this study will test the following hypothesis:

H6: Ownership concentration will significantly affect the corporate mandatory disclosure

3. Research Design and Methodology

3.1. Data and Sample Selection

Population in this study are 136 public manufacturing firms listed on the Indonesian Stock Exchange (BEI) for the period 2013. Samples is chosen based on the purposive sampling with the following criteria: (a) Firms must have been listed on the Indonesian Stock Exchange for the entire period of the study 2010 to 2013; (b) Firms must have completed data; (c) Firms must not use foreign currency; (d) Firms must not have net loss; and (e) Firms with unavailable data were excluded.

Based on the above criteria, the rest of the company which can be used as a sample of 45 companies. This study uses financial statement data during the period 2010 till 2013. The number of firm-year observations as much as 180 observations. The data in this study derived from Indonesian Capital Market Directory (ICMD) and *IDX Website www.idx.co.id*.

3.2. Operational Definitions of Variables

Dependent Variables

The dependent variable (corporate mandatory disclosure) is defined as the number of corporate mandatory disclosure related rules that a firm reports in their annual report and accounts. In order to analyze the transparency of reporting of companies listed on the Indonesian Stock Exchange, the Indonesian mandatory disclosure index was developed. The components of the regulatory framework examined included SK Bapepam No.02/PM/2002 for the period 2010 to 2012, and KEP-347/BL/2012 for the period 2013 to 2014. SK Bapepam No.02/PM/2002 was not valid since 31 Desember 2012 and was replaced by KEP-347/BL/2012.

Corporate mandatory disclosure was operationally defined as the appearance of an item of information in the annual reports of the companies under study. A company was initially awarded a score of 1 if an item was disclosed and 0 if the item was not disclosed. The total number of items disclosed by a company was then divided by the total number of items applicable to the company and the result was used as the index of corporate mandatory disclosure.Total of 68 items were identified in compliance with SK Bapepam No.02/PM/2002, while according to KEP-347/BL/2012 were 83 item. The design of the dependent variable is based on the disclosure index proposed by Wallace (1987) as follows: where:

$$INWAL_{it} = \frac{\sum_{i=1}^{m} d_{it}}{\sum_{i=1}^{n} d_{it}}$$

Where:
$INWAL_{it}$ = disclosure index
d_{it} = index item *i*, 1 if the information (item) is supplied (disclosed) and 0 otherwise;
m = number of items actually presented;
n = number of total possible items that apply

Independent variables:
IFRS Convergence (IFRS)

The Indonesian Accounting Standards (Standard Akuntansi Keuangan-SAK) issued in 2012 were comply with the IFRS convergence. IFRS is a dummy variable, IFRS = 0 for the year 2010-2011; otherwise, IFRS = 1 for the year 2012-2013.

Liquidity

Liquidity is the firm's ability to pay its bills over the short run without undue stress. Consequently, these ratios focus on current assets and current liabilities. This study used the formula liquidity by Ross *et al*. (2010) as follows:

$$\text{Current ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Profitability

Profitability is intended to measure how efficiently the firm uses its assets and how efficiently the firm manages its operations to yield earnings (Ross *et al*., 2010). This study used the formula profitability by Ross *et al*. (2010) as follows:

$$\text{Profit Margin} = \frac{\text{Net Income}}{\text{Net Sales}}$$

Leverage

Leverage ratio is intended to address the firm's long-run ability to meet its obligations (Ross *et al*., 2010). This study used the formula leverage by Ross *et al*. (2010) as follows:

$$\text{Leverage} = \frac{\text{Total Debt}}{\text{Total Equity}}$$

Company Age Listing on Stock Exchange

Company age calculated as the difference between the year observation and the year of establishment listed in the Stock Exchange as follows:

Company Age = Year Observation – Year First Issue

Ownership Concentration

One method for calculating ownership concentration is using the percentage of stock kept by the stockholder. Ownership Concentration was measured by dividing total number of shares owned with the total number of shares issued. This study used the formula ownership concentration by Haniffa & Cooke (2002) as follows:

$$\text{Ownership Concentration} = \frac{\text{Total number of shares owned}}{\text{Total number of shares issued}}$$

3.3. The Models

In order to test the research hypotheses, the following regression model is used:

$$INWAL_{it} = \gamma_0 + \gamma_1\, IFRS_{it} + \gamma_2\, LIQ_{it} + \gamma_3\, PROF_{it} + \gamma_4\, LEV_{it} + \gamma_5\, AGE_{it} + \gamma_6\, OWN_{it} + \varepsilon_{it}$$

where:

$INWAL_{it}$	=	Disclosure index of firm i at the time t
LIQ_{it}	=	Liquidity of firm i at the time t
$PROF_{it}$	=	Proftability of firm i at the time t
LEV_{it}	=	Leverage of firm i at the time t
AGE_{it}	=	Company age of firm i at the time t
OWN_{it}	=	Ownership concentration of firm i at the time t
γ	=	Constant (the intercept).
ε_{it}	=	Residual error of firm i at the time t

4. Empirical Results

4.1 Descriptive Statistics

The descriptive statistics for variables are presented in Table 1. The dependent variable, INWAL has a mean of 85.78% with a standard deviation of 8.69%. The average value of all variables except IFRS in this research are higher than the standard deviation, which indicates that data in these variables do not have variances.

Tabel 1. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
INWAL	180	0.6324	0.9880	0.8578	0.0869
IFRS	180	0.0000	1.0000	0.5000	0.5014
LIQ	180	0.1321	11.7307	2.2881	1.8634
PROF	180	0.0005	0.6698	0.0877	0.0817
LEV	180	0.0387	3.7379	0.9703	0.7279
AGE	180	2.0000	31.0000	18.4111	4.7599
OWN	180	0.0000	1.0000	0.5778	0.4953
Valid N (listwise)	180				

Note: INWAL = Corporate Mandatory Disclosure IFRS= International Financial Reporting Standard Convergence, LIQ = Liquidity, PROF = Profitability, LEV = Leverage, AGE = Company Age Listing on the Stock Exchange, OWN = Ownership Concentration

4.2. Results of Regression Model

Table 2 provides the results of the OLS regression for the model using the enter method. The result indicated that the adjusted R-square value obtained for this study is 0.318. It ishown that the independent variables: IFRS, liquidity, profitability, leverage, company age and ownership concentration explained 31.8% of the total variations in the level of corporate mandatory disclosure. The remaining 68.2% of variation is explained by other factors not included in this model. The smaller number of sample firm may be the reason for the low degree of variation of the level of completeness of information disclosure. The low adjusted R^2 value suggests that the proposed model could only explain a limited amount of variation of the level of company mandatory disclosure for the study period.

Table 2. Regression Model

$$INWAL_{it} = \gamma_0 + \gamma_1 IFRS_{it} + \gamma_2 LIQ_{it} + \gamma_3 PROF_{it} + \gamma_4 LEV_{it} + \gamma_5 AGE_{it} + \gamma_6 OWN_{it} + \varepsilon_{it}$$

Dependent Variable: Mandatory Disclosure (INWAL)					
Variabel	Prediksi	Koefisien	t-stat	Sig.	
(Constant)	?	-.289	-4.633	.000	***
IFRS	+	.111	8.263	.000	***
LIQ	+	.002	.162	.436	
PROF	+	.010	1.803	.037	**
LEV	-	-.014	-1.379	.085	*
AGE	+	.009	.444	.329	
OWN	+	.025	1.787	.038	**
F-statistic		14.937			
Sig. (F-statistic)		0	***		
Adjusted R-squared		0.318			

Note: INWAL = Corporate Mandatory Disclosure IFRS= International Financial Reporting Standard Convergence, LIQ = Liquidity, PROF = Profitability, LEV = Leverage, AGE = Company Age Listing on the Stock Exchange, OWN = Ownership Concentration. *** Significant at 1 percent; ** Significant at 5 percent *; Significant at 10 percent

Table 2 yields 0.111 as IFRS Converence implementation coefficient with the significance of 0.000. That shows that H1 is significant at 1%. Therefore, it indicates that IFRS convergence has a positive and significant effect on corporate mandatory disclosure. Firm specific characteristics including profitability, leverage and ownership concentration have positive and significant effect on the corporate mandatory disclosure. While liquidity and corporate age do not have effect on the corporate mandatory disclosure. The leverage has negative and significant effect on the corporate mandatory disclosure.

The hypothesis H1 predicted a significant effect of IFRS convergence on the corporate mandatory disclosure. The study result supported this hypothesis. The IFRS convergence significantly effect on the corporate mandatory disclosure. This result supported Shehata *et al.* (2014). The argument rely on the fact that IFRS convergence has had a positive impact on the transparency and quality of financial reporting.

The hypothesis H2 predicted a significant effect of liquidity on the corporate mandatory disclosure. The study result did not support this hypothesis. The liquidity has been found to be insignificantly and positively effect on the corporate mandatory disclosure. This result supported Mensah (2015). The argument rely on the fact that listed companies tend to have more mandatory disclosure because these companies need more financing capital than smaller firms.

The hypothesis H3 predicted a significant effect profitability on the corporate mandatory disclosure. This study result supports the previous hypothesis. This result supported Mensah (2012), Wallace *et al.* (1995) and Singhvi & Desai (1971). The argument rely on the fact that firms with high profits tend to disclose more information their performance in order to attract investments and gain shareholder confidence.

The hypothesis H4 predicted a significant effect leverage on the corporate mandatory disclosure. This study result supports the previous hypothesis. The leverage has been found to be significantly and negatively effect on the corporate mandatory disclosure. This result supported Shehata *et al.* (2014), Haniffa & Cooke (2002), and Wallace *et al.* (1994). The argument rely on the fact that firms with high debt equity will become unable to fulfill its contractual obligations and can lead to a higher probability of insolvency and financial distress. Furthermore, firms tend to be less incentives to disclose more financial information.

The hypothesis H5 predicted a significant effect of company age on the corporate mandatory disclosure. The study result did not support this hypothesis. The company age has been found to be insignificantly and positively effect on the corporate mandatory disclosure. This result supported Soliman (2013). The argument rely on the fact that the users of financial reporting did not consider the company age in making decsions because the younger firms can perform well to yield profit.

The hypothesis H6 predicted a significant effect ownership concentration on the corporate mandatory disclosure. This study result supports the previous hypothesis. The ownership concentration has been found to be significantly and positively effect on the corporate mandatory disclosure. This result supported Haniffa & Cooke (2002) and Singhvi & Desai (1971). The argument rely on the fact that companies have many stockholders could attract the public better and increase their securities' marketability.

5. Conclusion

This study examines if the IFRS convergence resulted in an improvement of financial reporting quality, in particular in the degree of corporate mandatory disclosure of financial reporting. In addition, it investigates the impact of firm characteristics on the corporate mandatory disclosure in Indonesian environment.

Mandatory disclosure practices of Indonesian companies appear to be extensive. The study revealed that firms, on average, report 85.78 percent of the mandatory disclosure information. The high disclosure level most likely relates to the fact that this type of information is mandatory in nature. Further, IFRS convergence has a positive and significant impact on corporate mandatory disclosure statistically. Moreover, in an effort to examine the impact of firms characteristics on the corporate mandatory disclosure, the results of multivariate analyses indicated that profitability, leverage and ownership concentration have positive and significant effect on the corporate mandatory disclosure. While liquidity and corporate age did not have effect on the corporate mandatory disclosure. The leverage has negative and significant effect on the corporate mandatory disclosure.

There are a number of limitations of this study as well. The first limitation of the study is that it uses only manufacturing companies exclude non-financial companies as a sample. So the results may not extend across all companies in Indonesia. Secondly, the period time of study is four years. In order to understand the nature of overall disclosure, it is necessary to undertake a study taking several years' data in order to investigate whether the quality of corporate mandatory disclosure has improved over time.

Future research could investigate disclosure performance of all the listed companies under the financial and the non-financial group. Moreover, firm characteristics like audit firm, company size, industry type should be investigated as determinants of mandatory disclosure. This study recommends to management Indonesian companies to improve the quality and reporting of mandatory disclosure in their annual reports. This will enhance the confidence of investors, satisfying creditors and customers, improve profitability and create shareholders value. The regulatory bodies in Indonesia should enforce laws and regulations that guarantee full compliance with the mandatory requirements leading to the 100% mandatory disclosure level.

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