

Corporate governance disclosure and its evidence in Indonesia, part 2

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Abstrak

One principle of corporate governance is disclosure and transparency. This principle stipulates that reliable disclosure is made on all material matters regarding the corporation. By applying this principle, information asymmetry can be reduced and thus negative consequences of adverse selection and moral hazard problems can be minimized. This paper assesses the extent of regulation on disclosure in Indonesia and reviews the evidence on the disclosure level among publicly listed companies in Indonesia. In Indonesia, private mechanisms to control the negative consequences on information asymmetry are not effective since the role of boards of directors / commissioners and banks / creditors is minimal in monitoring the firms' actions. Further, the capital and labor markets are not well developed. Without proper regulation, the amount of information produced by these companies as expected is inadequate. In recent years, there has been significant improvement in the regulation of disclosure in Indonesia. Badan Pengawas Pasar Modal (Capital Market Monitoring Agency) has issued a number of rules that enforce disclosure and that protect the interests of minority shareholders. The accounting standards are harmonized with the international Accounting Standards while the due process in preparing the standards has been intensified. Empirical evidence, however, finds that in general the disclosure level among publicly listed companies in Indonesia is low. Even for mandatory disclosure, the compliance rate is not satisfactory. This low level of disclosure despite the enhancement of disclosure requirements by the regulating bodies suggests that the enforcement of the disclosure requirements by the regulating bodies suggests that the enforcement of the regulations needs to be improved. The paper concludes with some policy recommendations to improve the disclosure level in Indonesia.