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Firm Characteristics, Corporate Governance and Management Compensation Disclosure: Evidence from Indonesia

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ABSTRACT

This study aimed to examine the effect of firm characteristics and corporate governance on the quality of management compensation disclosure in Indonesia. The adoption of International Accounting Standards (IAS) 24 "Related Party Disclosures" in Indonesia in 2011 had required disclosures about key management compensation, which was not required by the previous standard. The research was conducted by examining the top 100 listed companies' data that ranged between 2011 and 2014. Our findings suggest that institutional ownership and firm size are positively associated with the disclosure level of management compensation. We also found that the proportion of independent audit committee was negatively associated with the level of management compensation disclosure. Finally, we found no evidence that the audit quality had affected the level of management compensation disclosure. Our research has shed light on the determinants of management compensation disclosure in an emerging country with a two-tier board system where arguably the financial reporting environment is opaquer than the more developed countries.

Keywords: Audit Committee, IAS 24, institutional ownership, management compensation

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INTRODUCTION

Management compensation is an interesting subject and has attracted many researchers especially those in the developed countries to explore this topic (Al-Shaer & Zaman, 2019; Andjelkovic et al., 2002; Basu, 2007; Brunello et al., 2001; Grosse et al., 2017; Kaplan, 1998; Laing & Weir, 1999; Ma et

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al., 2019; Unite et al., 2008). Mandatory disclosure on management compensation has been regulated in many developed countries such as the US (Conyon, 2011), and the UK (Al-Shaer & Zaman, 2019). Research on management compensation in emerging countries, however, remains limited due to data availability issues (Darmadi, 2011; Utami & Kusuma, 2020). Indeed, firms are reluctant to disclose company information related to key management compensation as it could lead to confidential proprietary information leakage (Aobdia, 2018; Donahue, 2008).

Upon the decision to converge national accounting standard with International Financial Reporting Standards (IFRS) in 2008, Indonesia had adopted International Accounting Standards (IAS) 24 "Related Party Disclosures" in 2011 into its local standard of Pernyataan Standar Akuntansi Keuangan (PSAK) 7. The standard requires the disclosure of key management compensation and also the disclosure of related parties' relationships, transactions and balances, including commitments, in the financial statements. The level of detail for management compensation disclosure is increased among Indonesian listed companies after the adoption of IAS 24 (Utama & Utama, 2014). This study aims to examine the effect of institutional ownership, audit committee, audit quality and size to the disclosure of management compensation among top Indonesian listed companies.

Top management compensation is a very attractive subject both for legislators and academic studies in Indonesia (Chou & Buchdadi, 2018; Darmadi, 2011; Kartadjumena & Rodgers, 2019). Indonesia provides an attractive research ground for this subject as it is among the emerging countries where financial reporting environment is relatively more opaque than developed economies with low market incentives for the preparers to produce a good quality financial report (Ball et al., 2003; Lourenco, 2018). Thus, the new accounting standard's requirement to disclose management compensation may be seen as an effort to improve the quality of accounting information and transparency.

However, the presence of the mandatory requirement to disclose management compensation does not necessarily guarantee full compliance. Robinson et al. (2011) reported the disclosure deficiency amongst 336 US firms as identified by the Securities and Exchange Commission (SEC) after mandatory disclosure of management compensation in 2006. Another study by Alfijri et.al (2014) reported that the mandatory disclosure rate of companies in the UAE was only 57%. As such, it is reasonable to expect that the new accounting standard in Indonesia does not necessarily lead to full compliance amongst companies, especially in the early years of adoption. Indeed, Indonesia's level of disclosure on a firm's governance is among the lowest in ASEAN countries (Laksono, 2016). More specifically, Laksono (2016) had reported that Indonesia ranked lowest among other countries in ASEAN with the average index of Executive Director Remuneration and

Compensation Disclosure of 0.1900. The highest score is Thailand with a value of 0.2728. While Malaysia is in the middle with a value of 0.2206. These findings implied that the corporate governance practice in Indonesia is still low compare to other countries in ASEAN, especially in terms of management compensation disclosure.

On the other hand, management compensation needs to be disclosed for several reasons. First, disclosure of information on compensation for key management is part of the principle of good corporate governance and may assist the company to improve the governance. Second, disclosure of the information is required by shareholders as a tool for the decision making process. Disclosure of incomplete key management compensation information will result in the commissioner's decision in granting compensation to key management uncontrolled (Donahue, 2008). As claimed by Donahue (2008), the absence of key management compensation information disclosure would result in the risk of an outrage cost (key management compensation exceeding the prescribed limit).

The remaining of our paper is structured as follows. The ensuing section reviews the literature which has guided for us to develop research hypotheses. We then describe the research methodology adopted for this study before presenting the results derived from the statistical tests performed. Such results are related to the extant literature in which further elaboration is presented in the discussion section. Finally, we conclude the paper and provide future recommendations for future research.

Literature Review

Agency Theory. The agency theory is one of the theories underlying the study of the extent of disclosure which explains the relationship between agent and principal. The agency relationship presented by Jensen and Meckling (1976) describes the contractual relationship that arises between one or more shareholders (principal) to another party which is manager (agent), where the agent is required to perform services on behalf of the principal and involves delegation of authority to the agent in making business decisions. The principal acts as a provider of facilities and funds to run the company, while the agent is obliged to manage and execute the corporate management function. In the supervisory function, the agent is obliged to report periodically to the principal for the business he or she has undertaken. While the principal has to assess the performance of agents through financial statements submitted.

Principle-agent model explains the reason for complex management compensation such as share options and performance bonus, instead of just a flat salary (Gayle et al., 2018). Management compensation mix is designed to motivate the agent in increasing the principle's value. The literature on agency theory and executive compensation over the last two decade has argued that CEO compensation should be aligned to firm performance (Grossman & Hart, 1992; Holmstrom, 2000; Jensen & Murphy, 1990). It is by disclosing management compensation that the information asymmetry may be reduced due to the agency problem, especially for minority investors.

Corporate Governance. Corporate governance has attracted the attention of academic researchers and business world in recent years after the financial crisis of 2008 (Grosse et al., 2017; Ma et al., 2019; Ng et al., 2016). According to the International Auditing and Assurance Standards Board (2013), governance describes the role of the person(s) or organization(s) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. A good corporate governance system should provide effective protection of security in getting a higher return on investments for all shareholders, be it creditors or minority shareholders (Bhaumik et al., 2019; Ng et al., 2016). Furthermore, Ng et al. (2016) stated that with the structured mechanisms in place, it would directly or indirectly shape the corporate governance system to enforce these rules more effectively in any country.

Institutional Ownership. Institutional ownership is defined as shares ownership by parties in the form of institutions such as insurance companies, banks, investment companies, and other parties related to institutional ownership. Institutional ownership is a tool that can be used to reduce agency conflict by controlling the management through an effective monitoring process. The percentage of certain shares owned by an institution can affect the process of preparing the financial statements, which does not rule out the existence of accruals in the interests of the management (Birt et al., 2019; Kusumaningtyas et al., 2019). The institutional investors' impact on corporate management can be significant and used to align management interests with shareholders or reduce agency conflicts. The relatively large percentage of institutional share ownership may affect the disclosure of company reporting through the General Meeting of Shareholders (GMS). Rachmawati and Triatmoko (2015) stated that corresponding to the monitoring function, institutional investors were believed to have more capability to monitor management actions better than individual investors. Institutional investors have better resources than individual investors, such as experts to analyze investments, greater capital, and more sophisticated equipment. This is why institutional ownership is used in this research as a proxy for corporate governance, it can reduce agency conflict by improving the quality of corporate governance.

Independent Audit Committee. Corporate governance has an important role to mitigate the negative effect of related party transaction to the accounting quality (Hasnan et al., 2016). Audit committees are formed to assist the commissioners in carrying out their duties related to internal control, financial reporting, and corporate behaviour standards. The audit committees are expected to improve the quality of financial reporting, ensuring that directors make decisions based on accounting policies, practices and disclosures, reviewing the scope and results of internal and external audits, and overseeing the financial reporting process. By having an effective audit committee, commissioners can escalate the quality of financial reporting. Also, the audit committee assists the commissioners to carry out their duties and responsibilities to oversee the company's internal controls, resolve the audit issues, and allow the commissioner time to focus more on other issues. This is why an independent audit committee is used in this research as a proxy for corporate governance, it can reduce agency conflict by improving the quality of corporate governance.

Based on the Decision of the Chairman of Bapepam and LK Number: Kep-643/BL/2012 on the Establishment and Guidance of the Implementation of the Work of the Audit Committee is arranged the subjects about audit committee. Audit Committee membership consists of at least three members, and one of them is an independent commissioner who also doubles as chairman of the committee. Other members are independent external parties of which at least one of them has accounting and/or finance capabilities. Furthermore, a prior study suggested that independent audit committee members would ensure higher quality financial reporting (Lary & Taylor, 2012).

Firm Characteristics. In this study, the firm characteristic is represented with audit quality and firm size. Based on research conducted by Aljifri et al (2014), these characteristics were selected on the basis that they met the following three preconditions: (1) the variable encompasses sound theoretical reasons for explaining the association between the variable and corporate disclosure, (2) the variable is relevant to the socio-economic environment of Indonesia; and (3) sufficient data about the variable was available. An auditor can be the mechanism for controlling the behaviour of management, thus it's characteristics. The auditing process has an important role in reducing agency costs by limiting the opportunistic behaviour of management. This is why audit quality is used as a proxy for firm characteristics. Disclosing detailed information is costly, and thus may not be affordable for small firms, large firms are usually diverse in the scope of their business, the types of products and geographical coverage (Aljifri et al., 2014). Furthermore, a considerable amount of information is required for management purposes and can be generated internally. This is why firm size is also used as a proxy for firm characteristics.

Audit Quality. An auditor can be the mechanism for controlling the behaviour of management. The auditing process has an important role in reducing agency costs by limiting the opportunistic behaviour of management. Auditing process by external auditors verify the claim made by the agent and ensure the shareholders that the numbers presented in the financial statements are fair. Public accountants as external auditors who are relatively more independent of management than internal auditors have so far been expected to minimize profit engineering cases and improve the credibility of accounting information in financial statements (D'Angelo, 1981; Jordan et al., 2017). Big accounting firms have attracted a much larger fee than the small firms as the big accounting firms signalled a better audit quality (Fung et al., 2019). The auditor's quality dimension most frequently used in research is the size of the public accounting firm because the firm's reputation is considered as the most relevant to proxy audit quality (Challen & Siregar, 2017; Jiang et al., 2018; Jordan et al., 2017).

Firm Size. Firm size is a description of the size of a company. Sudarmadji and Sularto (2007), argued that the size of the company reflected in total assets, total sales or market capitalization. The greater the total assets, sales and market capitalization owned by the company, the greater the size of the company. Of the three measurements, the relative asset value is considered to have a higher level of stability than the total sales and market capitalization value in determining the size of a company. The large company arguably will provide more disclosures than a smaller company. Wider disclosure indicates that companies have applied the principles of good corporate governance which also may reduce the asymmetry information. The previous study argued that the size of the company had a significant association with the company's disclosure (Probohudono et al., 2013).

Management Compensation. Motivating the agent to act in the principal's interest is the key challenge arising from the separation of ownership and control. The main instrument to encourage management to act for the wealth of shareholders is through compensation contract. The disclosure of management compensation increases the trust of the investors (Seow et al., 2019). Management compensation disclosure has been required and used by the regulators as the mean to improve corporate governance. Market regulators have demanded more disclosure requirements for top management as part of the corporate governance reform. For example, is the requirement by the US SEC in 2017 for public companies to disclose the ratio of CEO's compensation to the median compensation of its employees (Securities and Exchange Commission, 2015). US SEC has required disclosure for management compensation since the 1970s and evolves (Espahbodi et al., 2016). However, in Indonesia, mandatory disclosure for top management compensation is required since 2011 with the adoption of IAS 24.

Hypotheses Development

Management compensation disclosure as an instrument to reduce the agency problems has also been used by the regulator to improve the corporate governance of the companies. The company's with better corporate governance attract more trust from the shareholders by disclosing their top management compensation (Seow et al., 2019). Thus we are interested to investigate if the corporate governance of the companies is associated with the level of management compensation disclosure. The firm's characteristics as proxied by the firm's size and audit's quality may also be associated with the level of management compensation disclosure. Considering the preceding discussion, we formulate our hypothesis as follow:

H_1: Institutional ownership is associated with the level of management compensation disclosure.

H_2: The independent Audit Committee is associated with the level of management compensation disclosure.

H_3: Audit quality is associated with the level of management compensation disclosure.

H_4: The firm size is associated with the level of management disclosure compensation.

MATERIALS AND METHODS

Research Design and Sources of Data

This research used Logit Regression to test the previously formulated hypotheses about the effect of ownership structure, independent audit committee, audit quality and company's size on the extent of key management compensation disclosures in companies registered in Kompas 100. The Kompas100 Index is a stock index of 100 shares of public companies traded on the Indonesia Stock Exchange (IDX). This study chose Kompas 100 because the selected company had large market capitalization values, also had good fundamentals and performance. Thus companies in Kompas 100 index supposedly have better financial reporting quality, bigger remuneration, and better corporate governance. Secondary data is employed in this research to be analyzed. This study used the data presented in the published corporate financial statements obtained from the IDX website (www.idx.co.id) or the official website of each company. These archival data were collected from 2011 to 2014 (time series) as well as cross-section as it includes several companies with diverse industries. With time-series data and cross-section in this research then used pooling data or panel data.

Population and Sample

The populations in this research were all companies listed on the Indonesia Stock Exchange and included in Kompas 100 in 2011-2014. The sample used in this research was chosen by the purposive sampling meet the following criteria:

(i) All companies listed in Indonesia Stock Exchange (BEI) in 2011-2014 and included in Kompas 100.

(ii) Companies are included in Kompas 100 in 2011-2014 consistently

(iii) The company has submitted/published annual financial reports and annual reports that have been audited regularly and have complete financial data as required by this research and can be accessed through the internet

(iv) The company has an independent institutional shareholder and independent audit committee from outside the company.

Based on these criteria, 212 observations in 5 years (2011-2014) were used as research samples.

Research Model

To test the hypothesis, this study employed a logit regression technique with the following empirical model:

$$COMPDISC_{i,t} = \alpha + \gamma_1 INSTOWN_{j,i,t} + \gamma_2 AUCOM_{j,i,t} + \gamma_3 AUQUAL_{j,i,t} + \gamma_4 SIZE_{j,i,t} + \varepsilon$$

Note:

$COMPDISC_i$ = a broad level of disclosure of key management compensation in the company's financial statements *i*. The disclosure level than divided into high and low disclosure to differentiate the level. The firm will be given 1 if the disclosure score is equal 4, and 0 if the disclosure score is 0, 1, 2 or 3.

$INSTOWN_i$ = proportion of the company's institutional ownership *i*

$AUCOM_i$ = the proportion of independent audit committee members from outside the company

$AUQUAL_{it}$ = quality audit company i in year t.

$SIZE_i$ = firm size *i*

The extent of disclosure of key management compensation in the company's financial statements is measured using scores as in previous studies conducted by Akmyga and Mita (2015), and Astasari and Nugrahanti (2015). The disclosure score is divided into five namely:

(i) A score of 0 is given if the firm does not disclose key management compensation in the financial statements

(ii) Score 1 is given if the company only presents total compensation without a description of reward categories

(iii) Score 2 is given when the company discloses the total compensation of each commissioner and director

(iv) Score 3 is given when the company discloses the total compensation by providing a description/reward category

(v) Score 4 is given when the company discloses the total compensation and provides details of sub amounts per category of employee benefits.

The operational definition of each independent variable used in this study is described as follows:

(a) Institutional Ownership (*INSTOWN*). This variable is measured by using the percentage of the number of shares owned by the institution from all share capital of the company in circulation (Bangun et al. as cited in Astasari & Nugrahanti, 2015).

(b) Independent Audit Committee (*AUCOM*). This variable is measured using the ratio of the number of independent audit committee members to the total number of audit committee members present in the company (Mujiyono & Nany, 2010).

(c) Audit Quality (*AUQUAL*). Audit Quality$_{it}$ is the quality of corporate audit *i* in year *t*. Following DeAngelo (1981), audit quality can be measured by a public accounting firm's size. Audit Quality is coded 1 if the company is audited by Big 4 and is 0 if it is not audited by Big 4.

(d) Firm Size (*SIZE*). Firm size is a scale that determines the size of the company that can be reviewed from the value of equity, sales value, the number of employees and the total value of assets which is a context variable that measures the demands of service or product organization (Kusnia, 2013). Following Minnick and Noga (2010) in measuring the size of the company is by the natural logarithm of the company's total assets at the end of the year.

RESULTS AND DISCUSSION

Descriptive Statistics

Figure 1 shows that in general the disclosure of management compensation in Indonesia was improving over the years from 2011 to 2014. Companies with a score of 1 resulted a significant decreasing in number from 2011 to subsequent years. The number of companies with score 2 and score 3 did not seem to decrease and increase significantly. There was a significant increase in the number of companies with a score of 4 from 2011 to the next year. This indicates that the extent of disclosure of key management compensation in the financial statements of the company is increasing.

Table 1 presents the descriptive statistics for the dependent variable (*COMPDISC*) and the independent variables (*INSTOWN, AUCOM, AUQUAL* and *SIZE*). From the table, it can be seen that on average, firms in

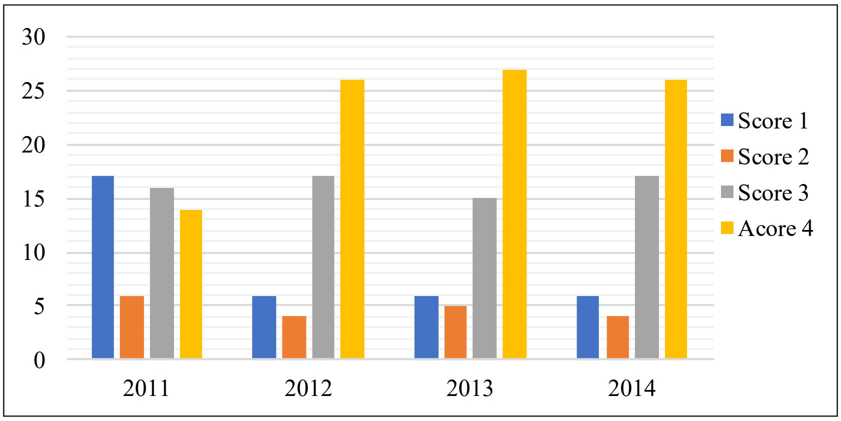

Figure 1. The quality of management compensation disclosure

Table 1
Descriptive statistics

	N	Mean	SD	Q1	Median	Q3
COMPDISC	212	0.44	0.5	0	0	1
INSTOWN	212	70.53	21.29	55.88	71.46	90.24
AUCOM	212	0.60	0.12	0.50	0.67	0.67
AUQUAL	212	0.76	0.43	1	1	1
SIZE	212	13.46	0.56	13.07	13.34	13.77

Notes: COMPDISC= management compensation disclosure level. A firm with high disclosure (i.e., disclosure score = 4) is coded 1 and 0 otherwise; INSTOWNn= the percentage of institutional ownership; AUCOM = the percentage of the independent audit committee in the board; AUQUAL= audit quality, represents 1 if a firm is audited by Big 4 audit firm, and 0 otherwise; SIZE= natural log of total assets.

our sample had 44% of high-level disclosure in key management compensation. The average (median) institutional ownership (*INSTOWN*) in our sample was 70.53% (71.46%), suggesting that the majority of firms in our sample were owned by institutional shareholders. Next, the average (median) of audit committee proportion from an independent party *(AUCOM)* in our sample was 60% (67%). Further, firms in our sample, on average, 76% were audited by Big Four audited firms *(AUQUAL)*. Finally, the mean of *SIZE* as a proxy of firm size was 13.46 (median=13.34).

Correlation Statistics

Pearson and Spearman correlations between the dependent and independent variables are presented in the upper and lower diagonal of Table 2 respectively. *COMPDISC* is positively correlated with *INSTOWN, AUQUAL AND SIZE* ($p<0.05$, Pearson and Spearman Correlations) suggesting that as institutional ownership, audit quality and size increase, compensation disclosure also increased. *COMPDISC,* however, is negatively correlated with *AUCOM* ($p<0.05$, Pearson and Spearman Correlations) suggesting that as the number of independent audits committee member increased, the extent of compensation disclosure decreased. the correlation statistics generally indicate that compensation disclosure increased with *INSTOWN, AUQUAL, SIZE* and decrease with *AUCOM*. Finally, the highest correlation observed in Table 2 was between

Table 2
Correlation matrix

	COMPDISC	*INSTOWN*	*AUCOM*	*AUQUAL*	*SIZE*	*VIF*
COMPDISC		0.39*	-0.29*	0.17*	0.31*	1.28
INSTOWN	0.40*		-0.12	0.27*	0.37*	2.10
AUCOM	-0.28*	-0.11		-0.27*	-0.26*	1.72
AUQUAL	0.20*	0.23*	-0.26*		0.37**	2.34
SIZE	0.31**	0.34*	-0.23*	0.37*		3.82

Correlations: Pearson (Spearman) Correlations are Presented in the Upper (Lower) Diagonal.
*Notes: * significant at 1 percent level ** significant at 5 percent level*

COMPDISC and *INSTOWN* (0.40, Pearson Correlation, significant at the 1% level). In testing for potential multicollinearity, the highest variance inflation factor (VIF) scores relate to SIZE (3.82), which was lower than the conservative threshold of 10 beyond which multicollinearity concerns could arise among independent variables (Kennedy, 1992).

Logit Regression Results

Table 3 reports the results from the estimation of empirical model, which regresses the level of key management compensation disclosure on independent variables (*INSTOWN, AUCOMM, AUQUAL,* and *SIZE)*. The result based on *INSTOWN* as independent variable revealed that the coefficient was positive (0.046) and significant at 1% level (z-statistic=-4.98). This result suggests that as institutional ownership increases the level of key management compensation disclosure will also increase. The result for *AUCOM* shows that the coefficient was negative (-3.369) and significant at the 5% level (z-statistic=-2.38). It suggests that the increase in the audit committee proportion will lead to a decrease in the level of key management disclosure. Next, the result for *AUQUAL* revealed that the coefficient was negative (-0.119) but not significant at any conventional level (z-statistic=-0.280). It suggests that the audit quality does not affect the level of disclosure on key management compensation. The result for *SIZE* as independent variable showed that the coefficient was negative (-0.949) and significant at 5% level (z-statistic=-2.830). It suggests a larger firm will be more likely to disclose more on key management compensation. Finally, the pseudo-R-squared values from the regression specifications reported in Table 3 indicated that the explanatory variables collectively explained around 22.48% of the total variation in the decision of firms to disclose more or less of key management compensation. This table presents results from the estimation of empirical model, which regressed the high level of disclosure *(COMPDISC)* on independent variables (*INSTOWN, AUCOM, AUQUAL* and *SIZE*).

Table 3
Logit regression results

Variable	Coefficient	Robust Std. Error	z-Statistic	Prob.
INSTOWN	0.046	0.009	4.980*	0.000
AUCOM	-3.369	1.414	-2.380**	0.017
AUQUAL	-0.119	0.422	-0.280	0.778
SIZE	0.949	0.335	2.830**	0.005
C	-14.231	4.528	-3.140	0.002
Pseudo R^2	0.2248			
N	212			

*Notes: * significant at 1% level ** significant at 5% level*

DISCUSSION

This study tested four hypotheses if institutional ownership (INSTOWN), audit committee (AUCOM), audit quality (AUQUAL) and firm size (SIZE), had a significant effect on the management compensation disclosure. The study found that institutional ownership, audit committee and firm size had a significant effect on the management compensation disclosure.

Institutional ownership arguably can be used in reducing agency conflict by controlling the management through an effective monitoring process. Percentage of certain shares owned by the institution may affect the process of preparing financial statements that do not rule out any actualization according to the interests of the management (Birt et al., 2019; Hanafi & Setiawan; 2018; Kusumaningtyas et al., 2019). By the intervention of institutional stakeholders, it is expected that greater disclosure of the extent in key management compensation will be better.

The institutional ownership variable has a significant positive effect on the extent of disclosure of key management compensation on the results of this study. This is in contrast to Astasari and Nugrahanti (2015) research findings that institutional ownership had a significant negative impact on the extent of disclosure of key management compensation in the financial statements. Institutional share ownership has proven to improve the quality of corporate information disclosure. Institutional ownership defined as share ownership by parties in the form of institutions such as insurance companies, banks, investment companies, and other parties related to institutional ownership. Institutional shareholders gain more benefit than individual investors, especially major institutional shareholders or above 5%. Institutional investors arguably have better resources than individual investors, such as experts to analyze investments, greater capital, and more sophisticated equipment. Large institutional shareholders are assumed to have long-term investment orientation which immediately affects their higher concern toward the development of the company by monitoring the company. The relatively large percentage of institutional share ownership may affect the disclosure of company reporting through the General Meeting of Shareholders (GMS). Effective monitoring processes by institutional shareholders can influence the process of preparing financial statements, including key management compensation disclosures.

The general purpose of establishing audit committees, among others, is to improve the quality of financial reporting, ensuring that directors make decisions based on accounting policies, practices and disclosures, reviewing the scope and results of internal and external audits, and overseeing the financial reporting process. With an effective audit committee, commissioners can improve the quality of financial reporting. The results of this study indicate that the audit committee has a negative and significant association with the key disclosure of key management compensation. This result is differing from the previous research conducted by

Astasari and Nugrahanti (2015) which found that the audit committee had no effect on the extent of disclosure of key management compensation in the financial statements. Mujiyono and Nany (2010) also found that the audit committee did not affect the area of voluntary disclosure. Similarly, the results of Wulandari and Budiartha (2014) showed that the audit committee did not affect the integrity of the financial statements. This signifies the role of independent audit committee members has not been effective in improving the quality of corporate financial statement disclosure. The more independent members of the audit committee disclose financial statements declining in quality. The many parties who give opinions/suggestions to improve the quality of financial statement disclosure, even make the inputs, are not executed maximally, because it is not focused on one/two input only.

Further, the results of this study indicate that audit quality measured by a public accounting firm's size does not affect the extent of disclosure of key management compensation in the financial statements. That is, firms audited by Big 4 and Non-Big 4 firms provided the same extent on key management compensation disclosure. The results of this study are not in line with previous research conducted by Basset et al. (2007), DeAngelo (1981), Nelson and Percy (2005), Wang and Chen (2004) that companies audited by large public accounting firms (Big 4) might disclose mandatory information in financial statements more widely. Akmyga and Mita (2015) stated that the public accounting firm measures had a significant effect on the extent of disclosure of key management compensation in the financial statements. It is important to note that the Non-Big 4 Public Accounting Firms in this research were PKF International, Moore Stephens, Mazars, HLB International, BDO International, RSM International, DFK International, and others. The Public accounting firm is an internationally affiliated Public accounting firm, which has good credibility. This shows that the Non-Big 4 also has the same good audit quality as big 4, so there might be no significant difference in audit quality between Big 4 and Non-Big 4 Public Accounting Firm.

The results of this study indicate that firm size variable provides a positive and significant effect on the extent of disclosure of key management compensation. This may occur due to the increasingly stringent regulations and public scrutiny make the company try to keep its reputation more transparent, especially for large companies, as they are more visible and under greater scrutiny from the stakeholders. The result of this study is aligned with previous studies such as Omar and Simon (2011), Agca and Onder (2007), and Alsaeed (2006), which indicated that firm size had a significant effect on the disclosure of the company's financial statements. However, this study is in contrast with the finding of Jaafar et al. (2014) who found firm size harmed the director's remuneration disclosure.

CONCLUSIONS

This study aimed to examine the effect of firm characteristics and corporate governance on the quality of management compensation disclosure in Indonesia. Using 212 firm-year observations in four years after mandatory disclosure of management compensation in 2011, we documented some evidence that institutional ownership and firm size were positively associated with the disclosure level of key management compensation. We also found that the proportion of independent audit committee was negatively associated with the level of management compensation disclosure. Our research, however, did not find evidence that the audit quality affected the level of management compensation disclosure. This study is significant for regulator and investor who seek for determinants of management compensation disclosure in an emerging country with two-tier board system. The implication of our study is highlighting the importance of corporate governance in solving agency problems. We recommend the market regulator to impose a stricter rule to improve the corporate governance of the listed companies especially for the quality and the quantity of independent audit committee member. The paper contributes to the literature of management compensation disclosure as the size of the audit firm does not affect the level of disclosure. This is not necessarily a bad signal of lower quality of Big Firms, instead, this may indicate that the international non-Big Firms in Indonesia have also similar audit quality with their Big Firms competitors.

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