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The Impact of Financial Distress Status and Corporate Governance Structures on the Level of Voluntary Disclosure Within Annual Reports of Firms (Case Study of Non-financial Firms in Indonesia Over the Period of 2009-2011)*

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The purpose of this research is to examine the impact of financial distress status and corporate governance structures on the level of voluntary disclosure. We apply six independent variables, including the firm's financial distress status and five components of corporate governance structures, such as board independence, audit committee independence, institutional ownership, board meeting frequency, and audit committee meeting frequency. This research is carried out by examining the annual reports of 114 non-financial firms listed at the Indonesian Stock Exchange over the period of 2009-2011. To test hypotheses, we undergo two different analyses, including independent samples *t*-test and Multiple Linear Regression. We find that: (1) The audit committee independence and the audit committee meeting frequency have significant positive impacts on the level of voluntary disclosure; (2) The financial distress status is negatively related to the level of disclosure at various levels of significance; and (3) All the independent variables are simultaneously related to voluntary disclosure.

Keywords: corporate governance structures, financial distress, voluntary disclosure

Introduction

Financial distress is an interesting area to observe, since this condition has a direct impact towards the firm, shareholder, and eventually on the public. Andrade and Kaplan (1998) described financial distress as a condition when a firm fails to pay its liabilities to the third party or an indication when a firm attempts to restructure debt because of the difficulty to pay it off. In this case, a firm can be said to be in the minimum cash flow, which means that the firm is in an illiquid condition but is still solvent.

Pranowo, Achsani, Manurung, and Nuryartono (2010) observed corporate financial distress dynamics in Indonesia over the period of 2004-2008 and concluded that financial crisis in Indonesia has started since the abolition of fuel subsidy in October 2005 and culminated when global financial crisis (sub-prime mortgage crisis) happened in the United States during the early quarter IV of 2007. This phenomenon leads to the delisting of public firms listed at the Indonesian Stock Exchange, such as Bahtera Adimina Samudera Corp. and

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* The data used in this study are available from the Indonesian Stock Exchange.

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Texmaco Jaya Corp.. Nasir and Abdullah (2004) and Almilia (2006) revealed that a financially distressed firm is a firm which has a financial performance deflation as a result of the impact of the economic crisis and poor management that is indicated by negative net profits consecutively in two years.

Many studies state that weak corporate governance is the main factor that worsens the economy of Indonesia after crisis (Mitton, 2002; Wijantini, 2006; Akhtaruddin, M. A. Hossain, M. Hossain, & Yao, 2009). The revealed financial report of manipulation scandals by Lippo Corp. and Kimia Farma Corp. (Boediono, 2005) and the report of the Forum for Corporate Governance in Indonesia (FCGI) 2008 unveiled that PricewaterhouseCoopers' survey about over international investors in 2002 shows that Indonesia occupies the lowest position in terms of audit and compliance, accountability to shareholders, disclosure, and transparency standards (Irawan & Farahmita, 2012). The role of a director has prompted the government and investors to pay more attention to the disclosure and transparency in financial reports and corporate governance practices.

The adoption of corporate disclosure rules is not enough; hence, it is necessary to maintain institutional structures as well as corporate governance structures to monitor the firm's manager and manage the firm so that the information disclosure will be higher and adequate (Li & Qi, 2008; Akhtaruddin et al., 2009; Prawinandi, Suhardjanto, & Triatmoko, 2012). Jensen and Meckling (1976), Akhtaruddin et al. (2009), and Wijaya (2009) confirmed the effect of corporate governance towards voluntary disclosure by linking it to the positive agency theory framework.

This research will focus on the impact of financial distress and the corporate governance structures on voluntary disclosure in a firm's annual report. Variables used in this research refer to 39 items in Larcker, Richardson, and Tuna (2007). The board of directors and the audit committee are taken from a statement of the Asian Development Bank (ADB) in Ismoyowati (2011) and the FCGI (2001) as cited in Prawinandi et al. (2012) which revealed that the core structure of corporate governance in Indonesia is the board of commissioners, including the audit committee. The Asia crisis that occurred in 1997-1998 was caused by the failures of the two proxies. Institutional ownership is taken due to their voting rights useful for monitoring the agencies (management); therefore, the institutional ownership proportion will affect annual voluntary disclosure of the firm, while the board meeting frequency and the audit committee meeting frequency are considered by the regulatory Komite Nasional Kebijakan Governance (KNKG, 2006) and Badan Pengawas Pasar Modal (BAPEPAM). BAPEPAM's (2004) rule, Kep-29/PM/2004, requires meeting procurement for the board and audit committee periodically.

The varied results from prior studies prove that the impact of board independence, audit committee independence, institutional ownership, board meeting frequency, and audit committee meeting frequency on the level of voluntary disclosure requires more supportive theory and further research. An independent board is one of the components of an effective corporate governance structure. Akhtaruddin et al. (2009), Samaha (2010), Karagül and Yönet (2012), and Samaha, Dahawy, Hussainey, and Stapleton (2012) revealed a significant and positive correlation on that topic. Al-Moataz and Hussainey (2012) and Matoussi and Chakroun (2008) reported a significant and negative effect, while Wijaya (2009) and Sánchez, Domínguez, and Álvarez (2011) documented that both are not significant.

The audit committee is responsible for implementing accounting in financial reporting and monitoring internal control systems (Owolabi & Dada, 2011). Ho and Wong (2001; as cited in Saputri, 2010) and Natalia and Zulaikha (2012) found a positive and significant correlation, while Nasir and Abdullah (2004), Mujiyono

and Nany (2010), Saputri (2010), Anggarini (2010), Anyta and Mutmainah (2012), and Kharis and Suhardjanto (2012) found no correlation between the two. For institutional ownership variables, Matoussi and Chakroun (2008), Akhtaruddin et al. (2009), Khodadadi, Khazami, and Aflatooni (2010), and Samaha et al. (2012) found a positive effect. Primastuti (2012) asserted a negative and significant effect, while Sari, Anugerah, and Dwiningsih (2010), Wahyuningtyas and Nugrahanti (2012), and Karagül and Yönet (2012) explained that there is no correlation between the two variables.

Meeting intensity is proxied by two variables in this study, namely, the intensity of board meetings and the intensity of audit committee meetings. Ettredge, Johnstone, Stone, and Wang (2011) and Kharis and Suhardjanto (2012) revealed a positive and significant effect. Sánchez et al. (2011) showed a negative relationship, while Waryanto (2010) and Primastuti (2012) showed that there is no relationship between the two variables and the disclosure. As for the intensity of the audit committee meetings, Putri (2009; as cited in Waryanto, 2010) and Ettredge et al. (2011) showed that there is a significant relationship, while Waryanto (2010) and Kharis and Suhardjanto (2012) argued that the intensity of audit committee meetings has no effect on disclosure.

Furthermore, the studies that observe the impact of distress status on the extensive level of voluntary disclosure in Indonesia are still limited, and although there are some, the results still vary. Research that supports the agency theory states that highly leveraged firms or firms involved with bad news tend to disclose more information in their annual reports to reduce future costs and avoid bankruptcy. This is supported by studies of Wijantini (2006) and Webb and Cohen (2007). But on the other hand, according to signaling theory, a distressed firm will tend to be more confined and try to keep the information from public. The findings of Nasir and Abdullah (2004) and Saputri (2010) noted a result that is in line with signaling theory, while Wijaya (2009) did not find the relationship between both of them.

Consistent with previous studies, this research uses a firm's characteristics as a control variable, including the firm size, leverage, and profitability (Nasir & Abdullah, 2004; Al-Moataz & Hussainey, 2012; Primastuti, 2012), and adds the nature of an audit firm as a new proxy that can be used to measure the auditor's quality, which is the quality of audit committee independence. This study uses public firms in Indonesia due to the presence of Perseroan Terbatas (LLC) structures and corporate governance regulations in Undang-Undang No. 40 tahun 2007 as well as BAPEPAM Kep-134/BL/2006 (BAPEPAM, 2006) which obligate publicly listed companies to submit annual reports.

Data used in this study are obtained from all the non-financial firms listed at the Indonesian Stock Exchange, not including firms which are not parts of the financial industry. This is because firms in the financial industry have different regulations and liquidity characteristics than those in other firms. This study observes the period of 2009-2011 because of the global financial crisis which occurred in the United States in 2008 and inevitably impacted the Indonesian economy. In those years, the global business was also experiencing difficulties, characterized by a reduction of Indonesian exports during the period of 2008-2009. We take data from the years of 2009-2011, because we predict that there are many firms experiencing financial distress in consequence of the global financial crisis that occurred in 2008.

This research is based on a study conducted by Nasir and Abdullah (2004) enhanced by adopting some factors as well as adding new factors. Some of the developments done are: (1) The samples taken are non-financial corporate data in financial distress condition listed at the Indonesian Stock Exchange over the

period of 2009-2011 based on the established criteria; (2) This study aims to add new independent variables such as the audit committee meeting frequency and expand the research conducted by Htay, Rashid, Adnan, and Meera (2012) by adding the board meeting frequency variable in expectation of obtaining a better figure of corporate governance structure; (3) This research adds a new control variable, the nature of an audit firm, as a standard of audit quality in voluntary disclosure; and (4) A voluntary disclosure index (IPS) is used in this research, as a combination of disclosure items by Webb (2002) and Nasir and Abdullah (2004), which has been adjusted to Accounting Financial Standard (SAK) applied in Indonesia.

This study generally aims to analyze the influence of the financial distress status and the corporate governance structures on the level of voluntary disclosure provided in the annual report of the firm. This study is expected to enrich the existing literature by providing a comprehensive list to measure the level of voluntary disclosure by financial distress of firms in Indonesia. For investors and prospective investors, this research is expected to help provide an overview of the firm’s performance by observing the implementation of corporate governance, thereby the investors can make the right investment decisions.

In the next section, we will discuss the background literature and develop our hypotheses. In Section 3, we will provide our research design and data. In Section 4, we will describe the robustness of the results, while in Section 5, we will provide the conclusions of this study.

Background Literature and Hypotheses

The term “corporate governance” is based on the agency theory. Jensen and Meckling (1976) described this theory as an employment contract between principal and agent, in which one or more principals (owners) delegate some of their authorities to make decisions towards the agent (manager). Therefore, an agent (manager) should provide information related to the conditions of the firm to the owner, such as the disclosure of accounting information in the form of annual report as an evaluation of the manager’s performance. However, this system evokes information asymmetry, called agency conflict. In addition, this conflict has a potential to issue the problems of adverse selection and moral hazard, if the manager’s behavior is against the interests of investors (Matoussi & Chakroun, 2008; Ujiyantho, 2009).

Agency theory explains that both of the parties (owner and agent) tend to maximize their own profits. In this case, the manager has a potential to hide some information that result in a lack of funding transparency in the firm and ultimately maximize his/her own benefits by conucting a less effective policy (FCGI, 2012). Separation of ownership also creates agency costs, such as monitoring costs, bonding costs, and the residual loss. In agency theory, the greater the information asymmetry between managers and shareholders, the more the investors will ask for information. So in agency theory, firms tend to provide more information in order to reduce the information asymmetry between the firms and external parties (Nuswandari, 2009; Mujiyono & Nany, 2010). The disclosure of such non-financial information is called voluntary disclosure (Saputri, 2010).

Signaling theory explains the reason why a firm provides information in form of an annual report to its shareholders and the public. The adverse selection condition allows external investors to assess the firm at a price lower than it should be. In this point, the management will provide non-financial information (voluntary disclosure) as a signal to the shareholders and the capital market (Matoussi & Chakroun, 2008). This will enhance the credibility and the success of the firm; it will thereby optimize financial cost and the capital market will ultimately assess the shares in appropriate value.

There are two kinds of signal that can be disclosed by the firm: the good news and the bad news. The good news of course, if disclosed, will give a good impression to investors and enhance the enterprise values and the share prices. But when a firm is in a financially distressed condition or is involved with bad news, its management will tend to be more private and provide limited information.

Essentially, the existence of corporate governance will increase the quality of accounting information for stakeholders through a set of institutional arrangements (Li & Qi, 2008). Khodadadi et al. (2010) emphasized that corporate governance is a factor that leads to a better quality of corporate performance, in particular, information presented by management. Good corporate governance is a means for a firm to continually grow over a long period and win in the global business competition.

To achieve good corporate governance, a firm requires a good corporate governance structure. Prawinandi et al. (2012) described corporate governance structure as the core organ within a company that works as a guard who manages the firm and has the obligation to carry out good corporate governance throughout the firm's performance. This structure is essential to improve the sustainable success and the accountability of a firm through a set of rules and procedures for making decisions in corporate affairs. In Indonesia, the corporate governance structure is reflected in the 2-tier board system, which is the board of commissioners and the board of directors (FCGI, 2001; as cited in Prawinandi et al., 2012). Organizations which have an authority to maintain the existence of good corporate governance in Indonesia are Komite Nasional Kebijakan Corporate Governance (KNKCG), FCGI, and the Indonesian Institute for Corporate Governance (IICG).

Good corporate governance can strengthen the control within the firm, reduce opportunistic behavior, and reduce information asymmetry; thus, it has a positive impact on the quality of information disclosed (voluntary disclosure) (Li & Qi, 2008). The five principles of good corporate governance are disclosure and transparency, fairness, responsibility, accountability, and independency. Corporate governance structures that will be used in this study include board independence, audit committee independence, institutional ownership, board meeting frequency, and audit committee meeting frequency.

Hypotheses Development

Signaling theory can explain the relationship between a financial distress status and non-mandatory information that is disclosed by the firm. By using the list of PN4 companies at the Malaysian Stock Exchange, Nasir and Abdullah (2004) documented that the firm in a distress state will be more enclosed in providing voluntary disclosure and will try to hold its information from the public. The result is consistent with the signaling theory which states that distressed firms will tend to reduce the information regarding the poor management performance in the annual report, as the transparency can debase the firm towards investors. Saputri (2010) also reported a decrease of voluntary disclosure given by highly leveraged firms or firms involved with bad news (distressed firms) compared to the firms with good news. This discussion leads to our first hypothesis:

H1: Financially distressed firms will provide less voluntary disclosure information than the firms which are in a good condition.

Board independence comes from non-affiliated party. Samaha (2010) and Htay et al. (2012) used the agency theory to explain the correlation among independent commissioners against voluntary disclosure and found a positive correlation among them. The findings of Nasir and Abdullah (2004), Akhtaruddin et al. (2009), Samaha (2010), Samaha et al. (2012), and Karagül and Yönet (2012) also documented that the higher level of

supervision by independent commissioners will force firms to reveal more voluntary disclosure information. It is because that there are more independent parties who demand for extensive transparency in the firm's annual reports (Prawinandi et al., 2012). In addition, the regulation of Bursa Efek Indonesia (BEI, 2004) No. Kep-305/BEJ/07-2004 about the minimum proportion on independency of the board of commissioners confirms further the meaning of their presence in given voluntary disclosure. We predict this relation as our second hypothesis:

H2: There is a positive correlation between board of commissioners' independency and the level of voluntary disclosure.

Independent audit committee has an important role related to internal control supervision towards high-quality management. One of their duties is to ensure that the information presented is reliable and is free from fraudulences. Associated with the agency theory, Willekens, Bauwhede, Gaeremynck, and Van de Gucht (2003) and Samaha et al. (2012) unveiled that an audit committee can reduce high agency costs, especially if the majority of committees are independent auditors. Eventually, the control of external auditors upon the manager (agency) can encourage the manager to disclose more information pertaining to the firm, through voluntary disclosure in corporate annual reports, with higher credibility and transparency. In line with this theory, the studies of Ho and Wong (2001; as cited in Saputri, 2010), Willekens et al. (2003), and Natalia and Zulaikha (2012) found a positive relationship between the proportion of independent audit committees and the level of voluntary disclosure. Hence, we further develop the following hypothesis:

H3: There is a positive relationship between the audit committee independence and the level of voluntary disclosure.

The main role of the board of commissioners according to the FCGI (2002; as cited in Waryanto, 2010) is to supervise the providence of the company by management as well as to ensure the implementation of board policies (strategies) and corporate accountability. In the implementation of these duties, boards of commissioners conduct regular meetings to evaluate policies that have been taken by management and overcome the conflicts of interests. Kharis and Suhardjanto (2012) revealed that the more the boards of commissioners meet, the higher the level of voluntary disclosure information they reach.

The audit committee meeting is a means to discuss significant problems that have been previously discussed with the management and to survey the financial reporting accuracy (Sutaryo, Payamta, & Bandi, 2011). The more frequently the audit committees meet to convene, the better the monitoring supervision will be regarding the external audit reporting and quality. The better the supervision is conducted, the more the firm will be able to reduce agency costs through the increased transparency of corporate disclosure. The research result by Putri (2009; as cited in Waryanto, 2010) and Ettredge et al. (2011) successfully documented the significant connection between the meeting intensity of audit committees and disclosure. Furthermore, Ettredge et al. (2011) supported the positive correlation between both variables, i.e., the meeting intensity and corporate disclosure. Therefore, the hypotheses conducted are as follows:

H4: The board meeting frequency has a positive impact on the level of voluntary disclosure.

H5: The audit committee meeting frequency has a positive impact on the level of voluntary disclosure.

Institutional ownership is one of the important components of the corporate governance structures. Karagül and Yönet (2012) and Htay et al. (2012) noted that institutional investors will push the management to do a better disclosure to find out whether the firm's performance is in accordance with its expectations, for example, in terms of profitability and risk management. In other words, the higher proportion of institutional

ownership held by external investors will lead to a higher level of voluntary disclosure conducted by the firm. Matoussi and Chakroun (2008), Akhtaruddin et al. (2009), and Khodadadi et al. (2010) studied the correlation between institutional ownership and the level of voluntary disclosure and found a positive and significant correlation between them. Therefore, our next hypothesis is as follows:

H6: The proportion of institutional ownership has a positive impact on the level of voluntary disclosure.

Research Design and Sample Selection

In this section, we describe our methods of empirical analysis and the sample.

Data and Variable Definitions

We retrieve our accounting data of all the non-financial companies listed for the years of 2009-2011 from the Indonesian Stock Exchange. A firm is classified into distress category if the firm had records with a negative net income for two consecutive years, while their partner, a healthy firm, has total assets in one standard deviation of the total assets of a distressed firm.

Based on the criteria above, we procure 57 distressed firm-years which are available to be analyzed. To meet the matched-pair procedure, we collect other 57 firm-years matched firms as the healthy group. This allows our sample to be as comparable to that of Nasir and Abdullah (2004) as possible. The criteria used for comparison are the firm size and industry. Healthy companies should derive from the same industry, non-financial companies, and have maximum total assets within one standard deviation of the total assets of the financially distressed firms. So, the total number of firm-years obtained is 114.

We apply six independent variables, including the firms' financial distress status and five components of corporate governance structures, such as board independence, audit committee independence, institutional ownership, board meeting frequency, and audit committee meeting frequency; and we use the level of voluntary disclosure as dependent variables. As for control variables, we employ the firm size, leverage, profitability, and nature of audit firms. Table 1 lists the definitions of variables used in the analysis. In addition, we have also listed the components used to determine IPS in Table 2.

Table 1

Variables Definitions and Measurement

Variable	Definition and measurement
IPS	Voluntary disclosure index, calculated as a firm's voluntary disclosure score divided by the total possible score.
DISTRS	Distress is indicated by negative net profit consecutively in two years. It will be measured as a dummy variable, where the value of "1" is for distressed companies and "0" for its healthy ones.
IDKOM	The proportion of independent non-executive directors, which indicates the percentage of independent non-executive directors to total members on the board.
IDKAUD	The proportion of independent audit committees, which indicates the percentage of independent audit committee to total members on the board.
KINS	The institutional ownership represents the percentage of institutional share of ownership to the total shares outstanding of the firm.
IRKOM	The number of board meetings annually.
IRKAUD	The number of audit committee meetings annually.
SIZE	Represents the size of the firms measured in log of total assets.
LEV	Represents the relationship between a firm's total debts to its total assets.
ROA	Represents the firm's profitability. The ratio is calculated as net income divided by total assets.
UKAP	The nature of an audit firm. It is measured as a dummy variable, indicating the value of "1", when the firm is audited by the big four and "0" if otherwise.

Table 2

Voluntary Disclosure Checklist

	Item
1	General corporate information (strategic information): Mission statement Brief history of the firm Financial highlights statement- > 3 years Description of corporate structure Order backlog
2	Information about directors (strategic information): Picture of chairperson only Picture of all directors Academic qualifications of directors Position or office held by executive directors Identification of senior management Functions of senior management
3	Capital market data (financial information): Stock exchanges (code, name) Volume of shares traded (trend) Share price information (trend) Domestic and foreign shareholding Distribution of shareholding by type of shareholders
4	Future prospects (strategic information): General discussion of future industry trends Disclosure of specific external factors, affecting firm prospects (economy, technology, and politics) Discussion of the firm's prospects (general)
5	Social reporting and value-added information (non-financial information): Community programs (health, education) Recruitment problems Discussion of the employees' welfare Corporate policy on employee training Nature of training
6	Capital resources: Current commitments (current capital expenditures) Sources of funds for current commitments Sources of funds for current commitments (trends) Proposed commitments Sources of funds for proposed commitments Time frame for proposed expenditures Debt covenants (potential effect)
7	Liquidity: Working capital (known trends) Working capital (anticipated trends) Current demands and obligations Sources of funds for demands and obligations Changes in the supply of funds (current and projected effects) Liquidity effects of balance sheet items Liquidity effects of operations Liquidity effects of investing and financing Liquidity deficiencies

Note. Source: The combined checklist items in Webb (2002) and Nasir and Abdullah (2004), adjusted with SAK.

Principal Empirical Method: Regression Analysis

We undergo two different analyses, including independent samples *t*-test and the Multiple Linear Regression, to test the proposed hypotheses. Beta coefficient (β) 5% is used to measure the strength of the relationship between two or more variables and also shows the direction of the relationship between the independent and dependent variables (Ghozali, 2006). Definitions of variables can be identified in Table 1.

$$IPS_{it} = \beta_0 + \beta_1 DISTRS_{ij,t} + \beta_2 IDKOM_{ij,t} + \beta_3 IDKAUD_{ij,t} + \beta_4 KINS_{ij,t} + \beta_5 IRKOM_{ij,t} + \beta_6 IRKAUD_{ij,t} + \beta_7 SIZE_{ij,t} + \beta_8 LEV_{ij,t} + \beta_9 ROA_{ij,t} + \beta_{10} UKAP_{ij,t} + \varepsilon_{ij,t} \quad (1)$$

Results and Discussion

Table 3 reports the descriptive statistics for the sample firms. The results from the IPS indicate that the highest score achieved by all firms is 75% and the lowest score is 20% with a standard deviation of 0.129. The statistics on institutional ownership (KINS) indicate that a substantial portion of the firm's shares (66.7%) are held by institutional shareholders. The mean of the proportion of independent board of commissioners (IDKOM) to total members on the board is 42.6%, which indicates that a significant number of boards are independent non-executive directors. Members of the independent audit committee (IDKAUD) comprise around 73.6% of members on the board.

Table 3

Descriptive Statistics

Variable	All firms				Financially distressed				Healthy			
	Min.	Max.	Mean	Std. dev.	Min.	Max.	Mean	Std. dev.	Min.	Max.	Mean	Std. dev.
IPS	0.20	0.75	0.456	0.129	0.20	0.50	0.359	0.07	0.35	0.75	0.552	0.098
IDKOM	0.25	1.00	0.426	0.157	0.25	1.00	0.418	0.133	0.25	1.00	0.432	0.178
IDKAUD	0.25	1.00	0.736	0.303	0.33	1.00	0.672	0.297	0.25	1.00	0.799	0.298
KINS	0.02	1.00	0.667	0.218	0.02	1.00	0.635	0.239	0.26	1.00	0.700	0.191
IRKOM	1.00	34.00	6.63	5.46	1.00	34.00	5.82	5.27	2.00	23.00	7.44	5.57
IRKAUD	2.00	19.00	7.00	4.00	2.00	14.00	7.12	3.88	2.00	19.00	6.88	4.15
SIZE	4.02	7.47	5.99	0.83	4.02	7.41	5.9	0.915	4.78	7.47	6.1	0.729
LEV	0.00	4.59	0.725	0.530	0.00	4.59	0.82	0.669	0.11	2.28	0.633	0.321
ROA	-2.88	1.82	-0.086	0.506	-2.88	0.00	-0.309	0.526	-0.29	1.82	0.137	0.373
UKAP	0.00	1.00	0.377	0.4868	0.00	1.00	0.211	0.411	0.00	1.00	0.544	0.503
Valid *N*	114				57				57			

The average board meeting frequency (IRKOM) is 6.63 with the maximum and minimum meetings of 34.00 and 1.00 respectively, while audit committee meeting frequency (IRKAUD) stands on 7 in average with the maximum and minimum meetings of 19.00 and 2.00 respectively. Table 3 also shows that the mean of financially distressed firms has lower score in almost every variable, besides IRKAUD and LEV compared to non-financially distressed firms.

The independent samples *t*-test is used to determine whether the two samples (two groups) that are not mutually related have a significantly different average value (means). Two different samples, the financially distressed firms and healthy firms, are said to be significantly different if the *p*-value is less than 0.05. Table 4 presents the results of the independent samples *t*-test.

The *t*-test results in Table 4 indicate that the average value of the IPS for the distressed group is 0.359, and as for the healthy group, it stands for 0.552. Through that number, it is clear that the distressed firms have a lower IPS compared to healthy companies. While the *t*-value obtained is -12.123 at the significance level of 0.000. So, it can be concluded that the mean of IPS differs significantly between the distressed companies and the healthy firms.

Table 4

Independent Samples T-test

Variable		Mean	Std. dev.	*t*-value (*p*-value)
IPS	Distressed	0.359	0.07	-12.123
	Healthy	0.552	0.098	(0.000)*
IDKOM	Distressed	0.418	0.133	-0.470
	Healthy	0.432	0.178	(0.639)
IDKAUD	Distressed	0.672	0.297	-2.282
	Healthy	0.799	0.298	(0.024)*
KINS	Distressed	0.635	0.239	-1.604
	Healthy	0.700	0.191	(0.111)
IRKOM	Distressed	5.82	5.27	-1.589
	Healthy	7.44	5.57	(0.115)
IRKAUD	Distressed	7.12	3.88	0.327
	Healthy	6.88	4.15	(0.745)

Notes. Distressed = 57 firm-years; Healthy = 57 firm-years; * indicates significance at the level of 5%.

Testing of Hypotheses

The proposed six hypotheses will be tested using the Multiple Linear Regression. Based on the regression results of 10 variables with a significance of 5%, it can be concluded that DISTRS, IDKAUD, IRKAUD, and SIZE variables have a significant effect on IPS, while IDKOM, KINS, IRKOM, LEV, ROA, and UKAP variables have no significant effect on the dependent variable, IPS. The result of the Multiple Linear Regression can be seen in Table 5.

Table 5

Multiple Linear Regression Coefficients

Model 1	Unstandardized coefficient		Standardized coefficient	*t*	Sig.
	B	Std. error	Beta		
(Constant)	0.261	0.066		3.942	0.000
DISTRS	-0.181	0.017	-0.707	-10.918	0.000
IDKOM	-0.001	0.046	-0.001	-0.021	0.983
IDKAUD	0.069	0.024	0.162	2.808	0.006
KINS	0.035	0.035	0.059	1.000	0.320
IRKOM	-0.001	0.001	-0.038	-0.593	0.555
IRKAUD	0.007	0.002	0.209	3.482	0.001
SIZE	0.030	0.010	0.195	3.142	0.002
LEV	-0.026	0.014	-0.106	-1.804	0.074
ROA	-0.027	0.016	-0.105	-1.649	0.102
UKAP	0.014	0.017	0.054	0.834	0.406

Notes. Dependent variable: IPS. Secondary data were processed.

As shown in Table 5, the final regression model equation obtained is as follows:

$$IPS = 0.261 - 0.181 DISTRS - 0.001 IDKOM + 0.069 IDKAUD + 0.035 KINS - 0.001 IRKOM \\ + 0.007 IRKAUD + 0.030 SIZE - 0.026 LEV - 0.027 ROA + 0.014 UKAP \quad (2)$$

Testing of H1. Based on the result of the independent samples *t*-test, financially distressed and non-financially distressed firms have been proved to be significantly different in providing voluntary disclosure. It is also supported by the result of multiple regression analysis which unveils that DISTRS negatively affects the level of voluntary disclosure (IPS). It means that if a firm suffers a higher financial distress, it will disclose fewer voluntary information. This result supports signaling theory and the studies of Nasir and Abdullah (2004) and Saputri (2010). Therefore, this study accepts the first hypothesis (H1).

Testing of H2. Based on the result of multiple regression analysis, the independent board variable (IDKOM) does not significantly affect the level of voluntary disclosure (IPS). It is shown in Table 5 that the significance value of IDKOM is 0.983, which is greater than the significance level of 5%. Thus, this study does not support the second hypothesis (H2).

This result indicates that no matter how high the independent proportion of the board is, it does not affect the firm's decision to increase the voluntary disclosure of information provided. This result is also in line with prior studies conducted by Wijaya (2009) and Sánchez et al. (2011). This phenomenon can be explained with the fact that mostly, independent boards are part-time members. It appears remarkably difficult to exhaustively understand the complexity of firm operations, and it is eventually impossible to influence the decision-making process (Waryanto, 2010; Sánchez et al., 2011).

Another reason that could explain this issue is due to the ineffectiveness of selection and appointment of an independent board (Waryanto, 2010). Wijaya (2009) stated that the higher proportion of an independent board without professionalism and real independency will lead to an ineffective performance. It can be concluded that high proportion of independent board in a firm is just a mere formality.

Testing of H3. The result shows that the audit committee independence variable (IDKAUD) significantly affects the level of voluntary disclosure provided by a firm and has a positive coefficient value. It can be seen from Table 5 that the significance value of IDKAUD is 0.006, which is smaller than the significance level of 5%. Thus, this study supports the third hypothesis (H3).

This result is in line with prior studies conducted by Ho and Wong (2001; as cited in Saputri, 2010) and Natalia and Zulaikha (2012). Associated with agency theory, this study supports Willekens et al. (2003) and Samaha et al. (2012) who exposed that the higher proportion of an independent audit committee can lower the agency costs. This happens, because the independent audit committee will improve the quality of information disclosed between the principal and agent, and thus will also improve corporate governance through transparency of information disclosed to the public (Sari et al., 2010). Furthermore, an independent audit committee is able to monitor the management or performance of the firm, thereby it will reduce the opportunity to commit fraud or fraudulent accounting records (Natalia & Zulaikha, 2012).

Testing of H4. Regression results indicate that the board meeting frequency variable (IRKOM) does not significantly affect the level of voluntary disclosure. It is shown in Table 5 that the significance value of IRKOM is 0.555, which is greater than the significance level of 5%. Thus, this study does not support the fourth hypothesis (H4). This result is in line with prior studies conducted by Waryanto (2010) and Primastuti (2012).

This situation can be explained by the fact that a board meeting undertaken is likely to be just a formality to meet the guidelines of KNKG (2006). Furthermore, in some cases, there is a domination of one commissioner or board members who have biased voice which leads to overriding on the firm's behalf (Waryanto, 2010). Muntoro (2006) further explained that a board meeting is a process of shared decision-making. If the participants of a board meeting do not attend it or are not ready (because the meeting was set up on a too short notice), the

process of shared decision-making cannot be made. So in the end, the level of supervision becomes less effective in influencing the level of disclosure as a symbol of accountability to the board.

Testing of H5. Based on the results of the multiple regression analysis, the audit committee meeting frequency variable (IRKAUD) significantly affects the voluntary disclosure provided by firms and it also has a positive coefficient value. It can be seen in Table 5 that IRKAUD has a significant value of 0.001, which is lower than the significance level of 5%. Thus, this study supports the fifth hypothesis (H5).

The result shows that a higher audit committee meeting frequency leads to a higher level of voluntary disclosure. This result is in line with prior studies conducted by Putri (2009; as cited in Waryanto, 2010) and Ettredge et al. (2011). Based on BAPEPAM kep-29/PM/2004, the audit committee has to conduct meetings regularly. Sutaryo et al. (2011) linked the audit committee meeting to the agency theory by explaining that the audit committee meeting is a means to improve the supervision function in order to reduce agency costs between the principal and an agent through the increasing transparency on voluntary disclosure information (non-mandatory) to the users.

Testing of H6. Based on the results, the institutional ownership variable (KINS) does not significantly affect the level of voluntary disclosure. It can be seen in Table 5 that the significance value of KINS is 0.320, which is greater than the significance level of 5%. Thus, this study does not support the sixth hypothesis (H6). This result is in line with prior studies conducted by Sari et al. (2010), Wahyuningtyas and Nugrahanti (2012), and Karagül and Yönet (2012).

According to Sari et al. (2010), one thing that can explain this case is that the institutions, which own corporate shares, have not considered various factors (e.g., social responsibility) as the criteria in consideration of an investment. As a result, the institution investors tend not to demand the firms to reveal more voluntary information.

Conclusions

This study aims to obtain empirical evidence about the influence of corporate financial distress and corporate governance structures, which consist of board independence, audit committee independence, institutional ownership, board meeting frequency, and audit committee meeting frequency, on the extensive level of voluntary disclosure in corporate annual reports. Data are obtained from the annual reports of 114 non-financial firms, which consist of 57 financially distressed firms and 57 non-financially distressed firms listed at the Indonesian Stock Exchange in the period of 2009-2011. Based on the results and discussions, which are previously explained, it can be concluded as follows: (1) The financial distress has a significant negative correlation to the level of voluntary disclosure; (2) The audit committee independence and the audit committee meeting frequency have a significant positive impact on the extensive level of voluntary disclosure; and (3) The board independence, the institutional ownership, and board meeting frequency do not have significant influences on the extensive level of voluntary disclosure in corporate annual reports.

This study has some limitations too, which are: (1) The number of samples is limited, as we only gained 114 firm-years during the three years of research; (2) There is subjectivity in determining the total index score of voluntary disclosures. It occurs because that there is no fixed rule, and the same voluntary disclosure indicator may be interpreted in different ways by every researcher; (3) The use of IPS is limited to the existence of voluntary disclosure items on the checklist; and (4) The period of observation is also limited, that is, only during the period of 2009-2011. Thus, the results of this study cannot be generalized.

Researchers can extend the observation period so that they can generalize more samples, in which the study will become more valid. Besides measuring the IPS on an existing checklist, further research can explore the quality of voluntary disclosure whenever possible. Future studies may add new variables that describe the corporate governance mechanisms, such as the competence of the audit committee.

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