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Management Compensation, Profitability and Environmental Performance Against Voluntary Disclosure: an Empirical Study on the Manufacturing Industry in Indonesia

Triana Zuhrotun Aulia[1], Sustari Alamsyah[2], Eko Narto Utomo[3]
[1)] University Muhammadiyah Tangerang, Banten, Indonesia, tzahrotunaulia@gmail.com.
[2)] University Muhammadiyah Tangerang, Banten, Indonesia, doni.alamsyah06@gmail.com
[3)] University Muhammadiyah Tangerang, Banten, Indonesia, ekonarto9@gmail.com

Corresponding Author: Sustari Alamsyah[2]

Abstract*:* This study empirically examines the effect of management compensation, profitability and environmental performance on voluntary disclosure in order to provide information about company activities which are expected to be a good signal for investors in improving the company's good image and reducing asymmetric information. The population used are companies listed on the IDX for the basic manufacturing and chemical sub-sector 2015-2019. Criteria Based on purposive sampling, 11 companies became the research sample. The data analysis method used panel data regression analysis with the eviews 9.0 program which consisted of making research models (CEM, FEM and REM), selecting the model used (Chow test, Hausman test and LM test), and hypothesis testing using t test and f test. The results of the study prove that management compensation and environmental performance have an effect on voluntary disclosure, while profitability has no effect on voluntary disclosure.

Keywords: Voluntary Disclosure, Management Compensation, Profitability, Environmental Performance

INTRODUCTION

Financial statements are information regarding the financial condition of the entity and are prepared for the benefit of stakeholders. The annual report in its disclosure is divided into 2 (two) types, namely mandatory and voluntary disclosure. Disclosure must convey information that must be disclosed which is regulated by applicable regulations in a country. And voluntary disclosure is conveying information beyond what is required by regulations (Mediawati & Afiyana, 2018). There are two things that companies pay attention to in conveying broad financial statement information, namely benefits and costs. If the benefits obtained are greater when disclosing financial statements voluntarily than the costs, management will strive to provide complete and reliable financial statements. To meet these needs, it is natural that companies in addition to providing mandatory information also provide voluntary information (Wardani, 2012) in (Poluan & Nugroho, 2015).

Management is the party that has the authority to manage and control the company's activities as well as being responsible for the disclosure of company information. Agency theory asserts that management as an agent acts on the basis of its interests as well as the principal (Jensen and Meckling, 1976). The decision to disclose or not to disclose information is driven by his personal interests. This allows information to mislead interested parties, including the principal. For this reason, it is necessary to have control from the principal through compensation given to management. The greater the ratio of management compensation to total assets, the greater the disclosure of information in the company's financial statements (Astasari & Nugrahanti, 2015). In addition, (Heridiansyah & Redjeki, 2014), (Conyon and He, 2011) prove that there is a positive relationship between management compensation and voluntary disclosure.

In the realm of voluntary disclosure, management tends to choose not to disclose voluntary information because management's behavior tends to be opportunistic and at the expense of the public interest (Jensen and Meckling, 1976). The management is free to determine other financial information that is considered relevant in the voluntary disclosure or not. In addition, management in disclosing information tends to consider the incentives it receives, so it will choose to disclose only things that are mandatory if there is no compensation for the disclosure (Bhattacharya and Spiegel, 1991 in (Akmyga & Mita, 2015).

This study focuses on voluntary disclosure. This research is important because voluntary disclosure contains information that can influence user decisions and can reduce information asymmetry. Voluntary disclosures are published by the company in the annual report. Voluntary disclosure is carried out freely by the company according to the company's interests where the information disclosed is still relevant and can support users of information in making economic policies (Adhi, 2012) in (Hidayat, 2017). Companies will be interested in conveying information that has the effect of increasing the company's credibility even though the information is not needed (Fatmawati, et al., 2018). The research motivations are: 1. There are still few studies on the voluntary disclosure index; 2. Voluntary disclosure contains important information and can influence user decisions and to reduce information asymmetry in making economic decisions; 3. There are still research gaps from previous studies.

LITERATURE REVIEW

Agency theory

Agency theory explains the relationship between the principal on the delegation of authority and management authority of the company to the agent (Jensen and Mecking, 1976). In carrying out their duties, the agent is considered to know more about company information than the principal (information asymmetry). This providing an opportunity for management not to submit information that is considered to reduce its performance and achievements in the eyes of stakeholders. This of course can be detrimental to the parties with an interest in the company (Jensen and Mecking, 1976).

Signaling theory

This theory underlies voluntary disclosure because it signals through information about the efforts that have been made by management in realizing the wishes of the owner. Signal theory according to Brigham and Houston (2011) is information addressed to investors in the form of information about the company's success to give confidence that this company is better than other companies. The management conveys information which is good news because it is in great demand by investors and shareholders. Voluntary disclosure contained in the annual report, both financial and non-financial, is one of the efforts to give a positive signal to information users (Fatmawati et al., 2018). The more widely disclosed information can minimize errors in projecting the company's performance in the future.

Management Compensation

Compensation according to PSAK 24 (Revised 2015) which is defined as employee benefits is all employee benefits in the form of short-term and long-term employee benefits, post-employment benefits severance pays, and equity-based benefits (Martani, 2019). An effort to improve management's work performance, compensation is a motivational effort for management (Manan, 2017). With appropriate compensation, management will try to provide the widest possible information regarding the condition of the company. However, some parties agree that voluntary disclosure of financial statements can be the wrong way to communicate with outside investors, when management's compensation is not balanced with the amount of interest from shareholders. The management compensation variable is measured using the approach of Armstrong, et al., (2012) in (Khairini, 2018), where compensation is only measured by the value of compensation received by the directors for one year. Management compensation is measured by the natural logarithm of the amount of compensation given to directors for 1 year. compensation information is obtained from disclosures in CALK. It can be formulated as follows:

KM=Ln (total management compensation for 1 year)

Profitability

That is a way (technique) to measure the company's ability to manage its assets in an effort to earn a profit (Martono, et al, 2013). In signal theory, the profitability ratio is used as an indication that the investment made by the company is of quality. Companies with high profitability tend to disclose more complete company information. With this disclosure, management wants to convince outsiders that the company is in a stable financial condition and shows that the company's performance is in good condition (Ramadhani, 2018). Profitability ratios are used to evaluate asset utilization, which is shown in asset accounts in the balance sheet with sales in the income statement (Subramanyam and Wild, 2014). Profitability is proxied by Return on Assets (ROA), which is calculated by comparing net income to total assets, then the formula is as follows:

$$\text{ROA} = \frac{\boldsymbol{EBIT}}{\boldsymbol{Total\ Assets}}$$

Environmental Performance

It is an environmental management system that is measured based on environmental policies and environmental goals and targets (Purwanto, 2004) in (Aulia, 2018). Companies with good environmental performance will strive to show their performance, so that it can be assessed by stakeholders, namely through voluntary disclosures that are only owned by companies with good environmental performance. Therefore, voluntary information disclosed by companies with good environmental performance will be wider (a lot) than voluntary information from companies with poor environmental performance (Al-Tuwaijri et al 2004) in (Julianto and Sjarief, 2018). In line with these results, Burgwal and Vieira (2014) say that voluntary disclosure is an indicator that the company has a good environmental performance value and will continue to inform stakeholders about its environmental activities. This voluntary information can further minimize information asymmetry. Environmental performance is measured based on the performance rating obtained by the company in PROPER (Ameici, 2015). The PROPER rating system is represented by five color ratings and their scores, namely: Gold, very good (5); Green, very good (4); blue, good (3); red, bad (2); and black, very bad (1).

Voluntary Disclosure Index

UTI is the disclosure of information beyond the required information which is deemed relevant and useful for users (Puspasari and Rahmah, 2018). List of voluntary disclosure items used in accordance with OJK Regulation Number 29/PJOK.04/2016. The list of disclosures includes the disclosure of general information and strategic, financial, future, social and information about the board of directors. Disclosure consists of statements made by the company. UTI items are 33 items of information (Wulandari and Laksito, 2015). The voluntary disclosure index is calculated dividing the total voluntary disclosure items by the total instrument disclosure. For each disclosure is scored by the formula:

$$\textbf{IPS} = \frac{\sum \boldsymbol{Q}\ (\boldsymbol{Disclosure\ in\ the\ annual\ report})}{\sum \boldsymbol{S}\ (\boldsymbol{Disclosure\ according\ to\ instrument})}$$

Table 1. Voluntary Disclosure Items

No.	Disclosure Items
1	*Statements* or descriptions of the company's strategy and objectives, may include general, financial, marketing and social strategies and objectives.
2	A description of the impact of the strategy on current or future results.
3	A chart or description that explains the authorities and responsibilities in the organization.
4	Information regarding the projected number of sales for the following year, can be qualitative or quantitative.
5	Information regarding the projected amount of profit for the following year, can be qualitative or quantitative.
6	Information regarding the projected cash flow for the following year, can be qualitative or quantitative.
7	A description of investment activities or capital expenditures that have been or have been implemented.
8	A description of the research and development program which may include policies, activity locations, number of employees, and results achieved.
9	Information about the main products or services produced by the company.
10	Information about orders from buyers that have not been fulfilled and sales contracts that will be realized in the future.
11	Information regarding market share analysis, can be qualitative or quantitative.
12	Information regarding competitor analysis, can be qualitative or quantitative.
13	A description of the company's goods and services marketing network.
14	Company *statement* or description regarding the provision of equal employment opportunities regardless of ethnicity, religion, and race.
15	Information about the number of employees working in the company.
16	A description of the conditions and safety in the work environment.
17	A description of the problems faced by the company in the *recruitment* of workers and the policies adopted to overcome these problems.
18	Information about the current physical level of *output* or capacity utilization achieved by the firm.
19	A description of the impact of the company's operations on the environment and the policies adopted to protect the environment.
20	Information about senior management, which may include name, experience and responsibilities.
21	A description of the policies adopted by the company.
22	A description of the division of functional responsibilities between the board of commissioners and the board of directors.
23	Summary of financial statistics covering profitability, liquidity and solvency ratios for 6 years or more.
24	Statements containing elements of profit and loss compared for 3 years or more.
25	A report containing elements of the balance sheet being compared for 3 years or more.
26	Information that details the amount spent on employees, which can include salaries and wages, benefits, and deductions.
27	Information regarding added value, can be qualitative or quantitative.
28	Information on the amount of annual compensation paid to the board of commissioners and directors.
29	Information about costs that are separated into fixed and variable components.
30	A description of the impact of inflation on company assets at present, or in the future.
31	Information about the expected rate of return on a project to be implemented by the company.
32	Information about possible litigation by other parties against the company in the future.
33	Information about parties seeking to acquire substantial ownership of shares.

Source: OJK Regulation No.29/PJOK.04/2016

From the description above, it can be described by the following research model:

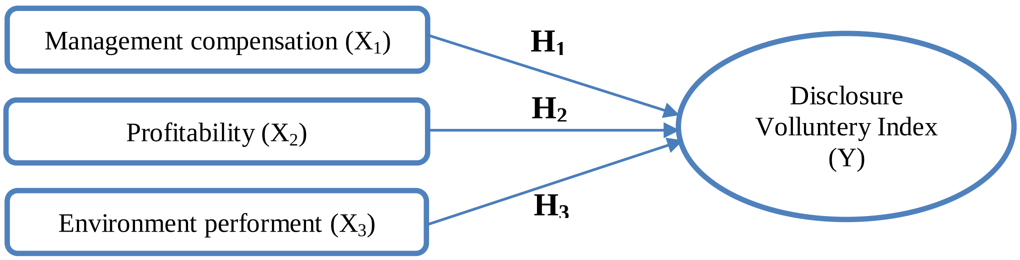

Figure 1. Research Model

Hypothesis Research:

Influence Management 's Compensation for Voluntary Disclosure

Compensation management is reply services provided company to management company on work that has been did. Through compensation this, hope management capable Upgrade performance company that in the end company could grow grow and give profit for owner. Increase performance will Becomes information positive for company in view interested parties. one capable performance Becomes party attraction external for evaluate success company that is performance on disclosure volunteer. The results of the research conducted by Herediansyah and Redjeki (2014) found that result that compensation management influential to disclosure volunteer.

H1: Compensation management influential to disclosure volunteer.

Influence Profitability to Disclosure Volunteer

Profitability is ability company in produce profit (Martani, 2015). The big company produce profit, then will the big ability company in to do disclosure volunteer, thing this because company own performance good which is signal information positive to interested parties. Besides that, the height ability in produce profit marked that company own ability big from side funding that has implications for the extent disclosure volunteer. The results of research conducted by Fitriana and Prastiwi (2014) prove that that profitability influential to disclosure volunteer.

H2: Profitability has an effect on voluntary disclosure .

Environmental Performance Effect to Disclosure Volunteer

Environmental performance is concern company to environment around (Aulia, 2018). Good environmental performance will push company for to do disclosure volunteer, thing this with objective for give information to party external that company own image good because disclose performance environment and disclosure volunteer. With condition performance good environment push company do disclosure volunteer.

H3 : Environmental performance has an effect on voluntary disclosure

RESEARCH METHODS

This research is a quantitative research with associative approach. The research data is in the form of secondary data, namely the company's financial and annual reports. The research population, namely companies listed on the BEI in the basic chemical industry sector, amounted

to 75 companies in the 2015-2019 observation period. The sample selection technique used a purposive sampling technique with criteria; 1. Issuing audited financial reports and annual reports in a row for 2015-2019; 2. Have a positive profit during the year of observation; 3. Issue voluntary disclosures; 4. Publish environmental performance. And obtained 11 companies that meet the sample criteria so that the number of observations is 55 firm-years (11 companies x 5 years).
The research variables consist of Management Compensation (X1), Profitability (X2) and Environment (X3) and Voluntary Disclosure (Y). Operational definitions and measurement of variables can be seen in the following table:

Table 2. Operational Definitions and Variable Measurement

No	Variable	Operational definition	Measurement Indicator	Scale
1.	Voluntary Disclosure Index (IPS)	That is the index of disclosure that is carried out voluntarily outside the disclosures that have been set by the authorities (Nugraheni, 2012).	$\mathbf{IPS} = \frac{\sum Q}{\sum S}\ x\ 100\ \%$ Q = Items disclosed . S = total instrument disclosure .	Ratio
2.	Management Compensation (KM)	That is, the costs incurred by the company for pay wages expected management can improve management performance (Astuti, 2018).	KM = Ln (Total management compensation for 1 year)	Ratio
3.	Profitability (ROA *)*	Ability company in get profit through the use of measured company assets with *return on asset* (ROA) (Hardjito and Martono, 2013).	**ROA =** $\frac{Laba\ Bersih + beban\ bunga - (1 - pajak)}{Total\ aset}\ x\ 100\ \%$	Ratio
4.	Environmental Performance *(KL)*	It is a company activity that is related to its concern for the surrounding environment (Ramadhan, 2019).	Gold : Very, very good (5) Green : Very good (4) Blue : Good (3) Red : Bad (2) Black : Very bad (1)	ordinal

Source: Data processed, 2020.

Research data in the form of panel data, y is data mix *time-series* and *crossection*. Sources of data obtained from secondary data, namely data obtained indirectly from research subjects. Secondary data in the form of financial reports accessed through the www.idx.co.id page and from the official website of the company under study. After the data is collected, the data analysis stage is carried out with the following stages of descriptive statistical analysis, estimation model selection, f-test, coefficient of determination test, and t-test (hypothesis) closed with interpretation of the results and conclusions.

FINDINGS AND DISCUSSION

Descriptive Statistical Analysis

The following shows the results of descriptive statistics from the variables and sample data collected:

Table 3. Descriptive Statistics

	IPS	KM	ROA	KL
mean	0.848500	10.24970	0.058309	3.121212
median	0.848500	10.35000	0.047300	3,000000
Maximum	1.0000000	11.45000	0.154100	4000000
Minimum	0.697000	9.170000	0.006200	2000000
Std. Dev	0.078356	0.674164	0.041739	0.415149

Sumber : Output Eviews 9.0, 2020

From the table above shows that the IPS variable has a minimum value of 0.697000 owned by PT Indal Alumunium Industry Tbk in 2016, the maximum value of 1.0000 is owned by PT Semen Baturaja Tbk in 2017. The average is 0.848500 and the standard deviation of 0.078536. The management compensation variable has a minimum value of 9.170000 owned by PT Indal Alumunium Industry Tbk in 2015, the maximum value of 11.45000 is owned by PT Japfa Comfeed Indonesia Tbk in 2017. The average is 10.24970 and the standard deviation is 0, 674164. The profitability variable has a minimum value of 0.006200 owned by PT. Asahimas Flat Glass Tbk in 2017, the maximum value of 0.154100 is owned by PT. Indocement Tunggal Perkasa Tbk in 2015. The average is 0.058309 and the standard deviation is 0.041739. The environmental performance variable (Proper) has a minimum value of 2,000000 owned by PT Indal Alumunium Industry Tbk in 2016, a maximum value of 4,000000 owned by PT Indocement Tunggal Perkasa Tbk in 2015 and 2016 and also PT. Semen Indonesia Tbk in 2015-2017. The average is 3.121212 and the standard deviation is 0.415149.

Estimation Model Selection

The selection of the estimation model aims to determine the model used for estimation in regression analysis. Estimated models that can be used in panel data regression analysis are *ordinary least squares* (OLS) or *common effect models (CEM)* , *fixed effects model* (FEM) and *random effect model* (REM). Testing the model estimation can be done using the Chow Test, Hausman Test, Langrange Multiplier Test (Winarno, 2015). The results of the selection of the estimation model obtained the following results:

Table 4. Model Estimation Test Results

Model Test	Indicator	Results
Chow test CEM VS FEM	Prob. Cross-section F and Cross-section chi-square (0.000) < a (0.05)	more FEM worthy compared to CEM
Hausman test FEM VS REM	Prob. Cross-section (0.2812) > a (0.05)	more brakes worthy compared to FEM
Langrange Multiplier Test BRAKE VS CEM	Prob. Breusch-pagan cross-section (0.000) < a (0.05)	more brakes worthy compared to CEM

Source: Data processed, 2020.

The selected model, namely the random effect model, can be seen in the following display:

Table 5. Estimation Model

Dependent Variable: IPS Method: Panel EGLS (Cross-section random effects)				
Variable	Coefficient	Std. Error	t-Statistics	Prob.
C	0.105440	0.259335	0.406579	0.6873
MK	0.057746	0.026150	2.208232	0.0353
ROA	-0.085078	0.209128	-0.406822	0.6871
KL	0.050026	0.025137	1.990178	0.0501
Effects Specification				
			S.D.	Rho
Cross-section random			0.057226	0.7968
Idiosyncratic random			0.028896	0.2032
Weighted Statistics				
R-squared	0.303884	Mean dependent var		0.237475
Adjusted R-squared	0.331872	S.D. dependent var		0.032327
S.E. of regression	0.028332	Sum squared resid		0.023279
F-statistic	4.219909	Durbin-Watson stat		1.810747
Prob(F-statistic)	0.013601			
Unweighted Statistics				
R-squared	0.462840	Mean dependent var		0.848500
Sum squared resid	0.105536	Durbin-Watson stat		0.399414

Source: Output Eviews 9.0, 2020.

Goodness Of Fit (Model Feasibility Test)

The model feasibility test aims to determine the accuracy of the regression model in estimating the actual value statistically (Ghozali, 2011). The test results show the prob value. *F-statistic* of 0.013 <0.05 means that the estimation model is fit or feasible. So that the analysis process can be continued to the next stage.

Coefficient of Determination

The coefficient of determination *(R-squared)* is used to determine the variation of the dependent variable Y which can be explained by the independent variable X. This test uses the *Adjusted R-squared value*. The test results show that the *Adjusted R-squared* value of 0.331872 means that the variation of changes in the ups and downs of the Voluntary Disclosure Index can be explained by management compensation, profitability, and environmental performance by 33.2%, while the remaining 76.8% is explained by other variables. which were not investigated in this study.

t test (Hypothesis)

The t-test is used to see how far the influence of an individual explanatory variable in explaining the variation of the dependent variable is. The test results are summarized in the following table:

Table 6. Hypothesis Test Results

Hypothesis	Criteria Test	Results
H $_1$ = KM influential significant against IPS	T *statistic* 2,2082 < T *table* 2.0452, Prob value. 0.0353 < 0.05	Accepted
H2 _ = ROA effect significant against IPS	T *statistic* -0.4068 > T *table* 2.0452, Prob value. 0.6871 > 0.05	Rejected
H $_3$ = KL effect significant against IPS	T *statistic* 1.9902 < T *table* 2.0452, Prob value. 0.0501 < 0.05	Accepted

Source: Data processed, 2020.

Table above shows that the **first** ***hypothesis*** **(H1)** which states that ***management compensation (KM) has an influence on the voluntary disclosure index (IPS) is accepted.*** These results indicate that management compensation is a factor in the extent to which voluntary disclosures are made to the public. The better the contract made with the management through the compensation provided, the management will maintain the company's image and disclose wider information about the company's performance. This finding supports the agency theory where the conflict of interest between managers *(agents)* and investors *(owners)* can be minimized by monitoring costs. Monitoring costs are costs incurred by the *principal* to monitor the activities and behavior of managers, including paying *remuneration* (compensation). The higher the compensation received, the more loyalty to the company. Management seeks to inform all information needed (or not) by investors through voluntary disclosure. In addition to maintaining trust, management also considers that voluntary disclosure can increase the company's credibility in the eyes of *stakeholders* . This study supports the results of Astasari and Nugrahanti (2015), Heridiansyah and Redjeki (2014) and Conyon and He (2011). And reject the research results of Bhattacharya and Spiegel (1991) in Gunawan (2019).

The ***(H2)*** which states that ***profitability (ROA) has an effect on the voluntary disclosure index (IPS) is rejected*** . This means that profitability has no effect on voluntary disclosure. This shows that the level of profitability does not guarantee the extent of voluntary disclosure. Management has its own considerations for disclosing or not disclosing internal company information in conditions of high or low profits. Voluntary disclosures made by basic and chemical sector companies are based on compliance with OJK rules, not because they are in the best condition (profit) or bad (loss). This finding supports research (Puspasari & Rahmah, 2018) which finds evidence that profitability has no effect on the extent of voluntary disclosure. However, this result is contradictory to the research of Ramadhan (2019) where profitability has a significant positive effect on the extent of *voluntary disclosure* . And also the results (Puspasari & Rahmah, 2018) which prove that there is a significant negative effect between profitability and the extent of voluntary disclosure.

The third hypothesis (H3) which states that **the environmental performance variable (PROPER) has an effect on the voluntary disclosure index (IPS) is accepted.** This result can be explained that environmental performance as proxy by PROPER becomes one of the indicators of consideration for management to disclose more or less internal company information. Disclosure related to environmental performance is an obligation for companies to be disclosed in their annual reports so that the better the environmental performance (gold) the wider the voluntary disclosure. When viewed from the voluntary disclosure items, several points can be explained through voluntary disclosures, namely environmental and social. This finding supports the legitimacy theory where management must ensure that the company's operational activities are in accordance with applicable norms and laws so that the rights of the company's internal and external stakeholders are maintained. The results in this study are in line with research (Julianto & Sjarief, 2016) and (Kurniawan, 2014) which prove that *environmental performance* has a significant positive effect on voluntary disclosure. The better the environmental performance, the wider the voluntary disclosure of information submitted to the public

CONCLUSION AND RECOMMENDATION

Conclusion

The findings of this study resulted in the following conclusions: 1) Management compensation has a significant positive effect on voluntary disclosure. Through good compensation, conflicts of interest between management and owners can be reconciled. Voluntary disclosure of information reduces information asymmetry between agents and principals so that it can increase investor confidence in management and for other purposes, namely the need for new funds, etc. 2) Profitability (ROA) has no effect on voluntary disclosure. The level of profitability does not guarantee the extent of voluntary disclosure. Management has its own discretion whether or not to disclose information that is voluntary. 3) Environmental performance (PROPER) has an effect on voluntary disclosure. Disclosures related to environmental performance are an obligation for companies to be disclosed in their annual reports, the better the good performance (Proper-gold) the wider the voluntary disclosures submitted to the public.

The implications of this research for companies, both managers and shareholders; that good compensation is a good reward for management. When they are appreciated, they will feel motivated to give their best performance. Whatever decision is taken on behalf of the company is the best decision. One of them is regarding voluntary information that is disclosed or not disclosed in the financial statements by considering the impact and benefits of such disclosure.

Limitations and further studies

Limitations of this study: (1) management compensation is calculated where the compensation is only from the compensation value received by the directors, it is not explained in detail about the compensation regarding any employee benefits. Future research is expected to be able to provide more detail regarding the components of management compensation. (2) the research object is limited, namely the basic and chemical manufacturing companies on the IDX, so that the research results have not been able to explain generalizations related to other sectors. For further research, it is expected to increase the number of research objects so that they can be used as references for other sectors. (3) the voluntary disclosure index was carried out according to the author's perception, allowing for differences in results if carried out by other authors. Further research should use the index that has been produced by the relevant institution so that the results are more consistent.

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