

The Determinant Factors of Goodwill Disclosure Level: Survey at Companies Listed in Indonesia Stock Exchange

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Abstract

The purpose of this research is to examine the determinant factors of goodwill disclosure level, as a result of the implementation of the new financial accounting standards i.e. PSAK 22: Business Combination and PSAK 48: Impairment of asset, which is conducted effectively on January 1st, 2011. The determinant factors of goodwill disclosure level are contract motive and reputation motive. The research data are collected from 83 companies listed in Indonesia Stock Exchange based on specific criterion sampling procedure. The data are analyzed using multiple linear regression. The empirical results indicate that the contract motive and reputation motive have no significant effect to the goodwill disclosure level. Nevertheless, according to the result of stepwise method step, there is a better new regression equation model, which reflects that the contract motive in form of manager bonus scheme has a significant effect to the goodwill disclosure level. These findings contribute to explain that goodwill disclosure is a means for managers to signal that the bonus is appropriate with their current performance and the good prospect they would give for the company.

Keywords: Goodwill Disclosure Level, Contract Motive, Reputation Motive

1. Introduction

The implementation of International Financial Reporting Standards (IFRS) convergence has been initiated by the Indonesia government since 2008. This is the consequence of G-20 Forum Agreement on November 15th, 2008 (Irahadi, 2012). One important point of the agreement is IFRS convergence program for the local accounting standards of the G-20 member countries. Hereafter, the G-20 agreement in London on April 2nd, 2009, required both of the accounting standards boards and the regulators must prepare a high quality global accounting standards.

The impact of IFRS convergence is that financial accounting standards (SAK) in Indonesia must refer to IFRS January 1st, 2009. The Indonesia SAK are become principle based, fair value dominance, more professional judgment and more disclosure (Board of SAK IAI, 2012). This will demand the readiness of all interested parties, i.e. management accountant, public accountant, academician, regulator and other supporting professions such as actuary and rater.

IFRS demands the company more disclosure to do than before. The impact of any transaction must be presented transparently by the company for regulator, investor and other entity. Financial report users need any information about the amount of company capital or net assets and also risk emanated from any transaction, including credit risk, market risk, operation risk and business risk. IFRS is a strategic accounting initiative for identifying, measuring, monitoring and controlling the risk. The disclosure rule in IFRS must be complied by the company, so that every entity operates in an adequate level of reporting and financial report users have all of the information about capital, transaction, and risk which is comparable (Chorafas, 2007). IFRS will reduce the difficulty in financial information interpretation, because IFRS promotes the similar perception in financial report information (Golrida, 2009).

Many new statements of SAK (PSAK) are published because of the IFRS convergence in Indonesia. The new PSAK 19: Intangible Assets (February 19th, 2010) revised the previous one (October 13th, 2000). This PSAK refers to International Accounting Standard (IAS) 38: Intangible Assets (January 1st, 2009). The new PSAK 22: Business Combination (January 12th, 2010) revised the previous one (September 7th, 1994). This PSAK refers to IFRS 3: Business Combination (January 1st, 2009). The new PSAK 48: Impairment of Assets (December 2nd, 2009) revised the previous one (July 15th, 1998). This PSAK refers to IAS 36: Impairment of Assets. These three new PSAKs are implemented effectively since January 1st, 2011.

There are significant and important changes in these three new PSAKs related with accounting of goodwill arose from business combination, so that it needs more particular attention. The complex and sophisticated accounting for goodwill must present the value of goodwill in understandable presentation for all of financial report users. To reach this objective, adequate disclosure is needed. The disclosure includes any important management concern which is used in making a related accounting policy. Not disclosing is not lying, it is just not telling. But every action that restrain the relevant information deliberately or windowdress the information for other external users are the same. This is a lying action. Failure to disclose would not allowed good economic decision making (Duska & Duska, 2003).

Disclosure is a means to present the result of accounting process, so that financial report users will get the benefit from the accounting information in their decision making (Evans, 2003). The importance of goodwill disclosure in the financial report based on Indonesia SAK converged with the IFRS and its determinant factors are examined in this research. The results of this study indicate that the contract motive and reputation motive have no significant effect to the goodwill disclosure level. Nevertheless, according to the new equation model developed in the end of this study, the contract motive in form of manager bonus scheme has a significant effect to the goodwill disclosure level.

The remainder of this paper is organized as follows. The second section reviews the relevant literature on the goodwill disclosure and hypotheses development. The third section describes the research design. The fourth section presents the descriptive and empirical result. The final section provide the conclusion.

2. Literature Review and Hypotheses Development

Goodwill is the excess of the total value of a business entity over the fair values of the individual, identifiable assets (less liabilities) on its balance sheet. Firms generate goodwill internally – in the form of resources such as employee skills, product reputation, customer loyalty – as a result of succesful business operation. A company can acquired goodwill by buying part or all of the (net) assets of other company and the purchase price exceeds the fair value of those net assets, then the premium is described as purchased goodwill. Goodwill is representing the present value of future above normal returns which the assets in combination are expected to generate (Sutton, 2004).

Disclosure refers to the presentation of relevant financial information both inside and outside the main body of the financial statements themselves, including methods employed in financial statements where more than one choice exists or an unusual or innovative selection of method arised (Wolk et al, 2008). The objectives of disclosure are to describe recognized items and to provide relevant measures of those items other than the measures in the financial statements, to describe unrecognized items and to provide a useful measure of those items, to provide information that allows financial statement users to compare within and between years, to provide information in future cash inflows or outflows, and to help investors assess return on their investment (Belkaoui, 2000).

Related with goodwill that arose from business combination, PSAK 22: Business Combination states that for every business combination in the current reporting period, disclosure must be encompassed qualitative explanation about factors establish the recognized goodwill, such as expected synergy from the operation combination between the acquirer and the acquiree, intangible assets which is ineligible for separate recognition and other factors, and also the amount of total goodwill which is measured reliaby. Ex post the aquisition event, the acquirer must disclose any information related with reconciliation of goodwill value recorded in the begining and the end of reporting period separately. PSAK 48: Impairment of Assets states that the acquirer must disclose any information related with loss from impairment of goodwill. The goodwill accounting is so complicated, then it needs a more disclosure for the user to understand the value of goodwill.

According to PSAK 22: Business Combination and PSAK 48: Impairment of Assets, the company must conduct impairment test for the goodwill value annually since January 1st, 2011. All of supporting information in the impairment test of goodwill must be disclosed, i.e. assumption, estimation and method. The tighter debt covenant imposed by the creditor, the more convinsing goodwill disclosure presented by the manager. Debt covenant could increase the level of goodwill disclosure.

For the company with particular bonus scheme, manager will make effort to achieve the target and to convince the shareholder that the achievment is his performance. Manager wants to convince anyone that everything is under control and the target is achieved well. Goodwill represents that there is positive contribution for to the company from the business combination decision taken by the manager in the past.

Overseas listing causes the company must comply with any tight regulation in the foreign countries which might be differ from the local regulation. This will be motivated the manager to convince the market that the dual listing of the company is maintained well. In order to keep away from delisting risk, manager will avoid to violate the rule of overseas stock exchange including the goodwill disclosure. Manager of dual listing company will present adequate level of goodwill disclosure.

Reputation motive would also influence the goodwill disclosure level. Chief Executive Officer (CEO) appointed in a long time ago and CEO appointed currently have a different reputation motive. CEO appointed in a long time ago is responsible for all of business decision that he took in the past. CEO appointed in a long time ago would convince the market that his decision in the past, including business combination decision which generated goodwill for the company, is a right decision. But CEO appointed currently is not responsible for that. He is responsible to continue and even to improve the existing condition.

Based on the previous description, the hypotheses in this study are as follows:

H1: Contract motives in form of debt covenant increases the goodwill disclosure level

H2: Contract motives in form of bonus scheme for the manager increases the goodwill disclosure level

H3: Contract motives in form of dual listing increases the goodwill disclosure level
H4: Reputation motives increases the goodwill disclosure level.

3. Research Methodology

3.1. Sample and Dataset Selection

The analysis focuses on companies that listed in the Indonesia Stock Exchange. The effective date of the implementation of the new PSAK 22: Business Combination and PSAK 48: Impairment of Assets is January 1st, 2011. The empirical analysis concentrate on effective implementation period of the new PSAK, i.e. 2011 financial reporting period.

The sample used in this study were obtained by using judgment sampling technique, which is one form of purposive sampling by taking of predetermined based on the intent and purpose of the study with the following criteria:

- 1) Company are listed in the Indonesia Stock Exchange (IDX) for 2009, 2010 and 2011
- 2) Company present goodwill value as their asset in the statement of financial position at December 31st, 2011.
- 3) Audited consolidation financial statement of companies are available for the reporting period of 2009, 2010 and 2011.
- 4) Share price data of companies are available for 2009, 2010 and 2011.

Based on the specific criterion sampling procedure, the sample consists of 83 companies.

3.2. Data Analysis Methods

The research hypotheses are tested using the multiple regression analysis. The multiple linear regression model can be termed as a good model if the model meets the assumption of data normality and free from classical assumptions, both the normality, multicollinearity, autocorrelation, and heteroscedasticity. In this research, only part of the regression model assumptions were tested. The autocorrelation assumption was not tested because the data are collected and processed cross sectionally instead of time series, which not impair the autocorrelation. Thus, in this research the regression model assumptions were tested by the Kolmogorov Smirnov test for normality, the Gletjser test for multicollinearity, and the value of Variance Inflation Factors (VIF), where the VIF value must be less than 10, for heteroscedasticity.

The data analysis was conducted in regression equation as follow:

$$Y_1 = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_9 X_9 + \beta_{10} X_{10} + \beta_{11} X_{11} + \varepsilon$$

Where:

Y_1 = Goodwill Disclosure Level

X_1 = Contract Motive in Form of Debt Covenant

X_2 = Contract Motive in Form of Bonus Scheme for Manager

X_3 = Contract Motive in Form of Dual Listing

X_4 = Reputation Motive in the CEO

X_9 = Company Size

X_{10} = Last Year Goodwill

X_{11} = Amount of Years where Book to Market Ratio > 1

Goodwill disclosure level was measured by the completeness of goodwill disclosure item (Paananen, 2008) based on the new PSAK 22: Business Combination and PSAK 48: Impairment of Assets which is implemented since January 1st, 2011.

Contract motive in form of debt covenant was measured by a ratio of total debts (t) to total assets (t-1). The larger ratio represents the company is restricted by the debt covenant (Ramanna & Watts, 2011).

Contract motive in form of bonus scheme for manager was a dummy variable measured with $X_2 = 1$ if there was bonus scheme for manager, and $X_2 = 0$ otherwise (Ramanna & Watts, 2011).

Contract motive in form of dual listing was a dummy variable measured with $X_3 = 1$ if the company is dual listed in both of local and overseas stock exchange, and $X_3 = 0$ otherwise (Ramanna & Watts, 2011).

Reputation Motive in the CEO was measured as percentage of previous CEO appointed since the last period (not current period) (Ramanna & Watts, 2011).

Company size was control variable to capture the operation scale of the company and measured by log last year total assets (t-1) (Ramanna & Watts, 2011).

Last year goodwill was control variable to capture last year goodwill position where an amortization still allowed by the previous PSAK and measured by ratio last year goodwill (t-1) to last two year total assets (t-2).

Amount of years where book to market ratio > 1 was control variable to capture the possibility of goodwill impairment value in three years.

4. Results

4.1. Descriptive Analysis

The empirical result of descriptive analysis showed in Table 1 and Table 2.

Table 1 presented the percentage of companies based on total goodwill disclosure score. According to Table 1, companies conducted goodwill disclosure at the minimum level with the range of score mainly from 1 till 3 of 13 (maximum score). This lower level of goodwill disclosure reflected uncomplete picture of goodwill disclosure in the most of Indonesia companies' notes to financial statement. Majority company just disclosed information related with goodwill at the minimum level which is required by the new PSAK 22: Business Combination and PSAK 48: Impairment of Assets which is implemented since January 1st, 2011. The minimum disclosure of goodwill was conducted only if the amount of goodwill allocated to the Cash Generating Unit (CGU) was significant relative to the total recorded goodwill. Some companies conducted disclosure very well indicates that some companies signal the market with the full covered information of the goodwill in their financial statement.

Table 2 presented the total score detail of goodwill disclosure item. According to Table 2, companies disclosed the goodwill related information on average 22% of disclosure items. Explanation about the frequency of goodwill impairment test conducted by the company was the most item that disclosed by every company. The detailed short term and long term projection was disclosed by no company. In average, the actual goodwill disclosure level is still very lower than the maximum score.

4.2. Hypothesis Testing

The empirical result of hypothesis testing showed in Table 3 and Table 4.

Table 3 presented the coefficient determination and F-test of the effect of contract motive in form of debt covenant (X_1), contract motive in form of bonus scheme for manager (X_2), contract motive in form of dual listing (X_3), and reputation motive in CEO (X_4) on goodwill disclosure level (Y_1). According to Table 3, it can be viewed that regression equation model developed in this study is as follow:

$$Y_1 = -3,990 + 0,045X_1 + 0,770X_2 + 1,463X_3 + 1,230X_4 + 0,837X_9 + 0,674X_{10} - 0,176X_{11}$$

The positive and negative signs on the regression coefficients reflect the effect direction of every independent variable on dependent variable.

The larger contract motive in form of debt covenant, the higher goodwill disclosure level. The tight debt covenant will pursue the manager of a company to disclose more information related with goodwill.

The larger contract motive in form of bonus scheme for manager, the higher goodwill disclosure level. Bonus scheme of a company motivates the manager to achieve good performance including transparency about goodwill in order to get belief from shareholders. So that the bonus scheme will be improved (bonus increase if the target increase too) and the manager will get the bonus in the future.

The larger contract motive in form of dual listing, the higher goodwill disclosure level. Delisting risk is minimized by comply the disclosure rule related with goodwill. Adequate goodwill disclosure is considered important to avoid the delisting risk in the stock exchange especially overseas stock exchange beside the local stock exchange.

The larger reputation motive in CEO, the higher goodwill disclosure level. Previous CEO would like to convince the market that any business decision taken in the past including business combination that create goodwill is a right decision and everything is under control.

Nevertheless the impact of contract motive in form of debt covenant, contract motive in form of bonus scheme for manager, contract motive in form of dual listing, and reputation motive in CEO on goodwill disclosure level (Y_1) is not significant. So, the stepwise method procedure is conducted to develop a better regression equation model.

Table 4 presented the stepwise method regression. According to Table 4, the new regression equation model developed in this study is as follow:

$$Y_1 = -3,677 + 1,072X_2 + 0,837X_9$$

The new regression equation model gives the description that contract motive in the form of manager bonus scheme has a significant effect to the goodwill disclosure level. This result is important for shareholders to realized that manager bonus scheme must set in a right way. It can influence how a company disclose item such as goodwill to external parties.

5. Conclusion

This research examines the determinant factors of goodwill disclosure level, as a result of the implementation of the new financial accounting standards in Indonesia i.e. PSAK 22: Business Combination and PSAK 48: Impairment of Asset, which is conducted effectively on January 1st, 2011. The determinant factors of goodwill disclosure level are contract motive and reputation motive.

The research indicates that contract motive in form of manager bonus scheme has a significant effect to the goodwill disclosure level. Manager bonus scheme must be set carefully in order to increase the goodwill

disclosure level. The goodwill disclosure is a means for managers to signal that the bonus is appropriate with their current performance and the good prospect they would give for the company.

This research is conducted for identifying determinant factors of goodwill disclosure level but limited in contract and reputation motive only. There are many other determinant factors to be explored. Therefore, further research is expected to be able to identify other determinant factors which influence the goodwill disclosure level both directly and indirectly.

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Table 1. Percentage of Companies Based on Total Goodwill Disclosure Score

Total Goodwill Disclosure Score	Number of Company	Percentage (%)
0	1	1.20%
1	23	27.71%
2	29	34.94%
3	13	15.66%
4	3	3.61%
5	1	1.20%
6	2	2.41%
7	6	7.23%
8	2	2.41%
9	1	1.20%
10	2	2.41%
Total	83	100.00%

Table 2. Total Score Detail of Goodwill Disclosure Item

No	Goodwill Disclosure	Score	Max Score	Average (%)
1	Discount rate used	14	83	16.87%
2	Discount rate used before or after tax	27	83	32.53%
3	Discount rate adjusted with the general CGUs	8	83	9.64%
4	Discount rate detailed for every specific CGU	3	83	3.61%
5	Projection time period used	9	83	10.84%
6	Projection time period including short term and long term period	1	83	1.20%
7	Short term and long term projection time period detailed	0	83	0.00%
8	Cash flow projection based on independent appraisal or explained in detail	19	83	22.89%
9	Growth rate used	8	83	9.64%
10	Growth rate detailed for every specific CGU	3	83	3.61%
11	Frequency of goodwill impairment test	80	83	96.39%
12	Goodwill information for every specific CGU	48	83	57.83%
13	Projection sensitivity explanation	16	83	19.28%
	Total Goodwill Disclosure Score	236	1079	22%

Table 3. Coefficient Determination and F-Test of the Effect of Contract Motive in Form of Debt Covenant (X₁), Contract Motive in Form of Bonus Scheme for Manager (X₂), Contract Motive in Form of Dual Listing (X₃), and Reputation Motive in CEO (X₄) on Goodwill Disclosure Level (Y₁)

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-3,990	2,390		-1,670	,099
	X1	,045	,391	,013	,115	,909
	X2	,770	,535	,158	1,439	,154
	X3	1,463	,936	,166	1,563	,122
	X4	1,230	1,329	,098	,925	,358
	X9	,837	,308	,293	2,719	,008
	X10	,674	,759	,093	,889	,377
	X11	-,176	,215	-,090	-,820	,415

a. Dependent Variable: Y1

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,473 ^a	,224	,151	2,11690

a. Predictors: (Constant), X11, X10, X1, X4, X3, X9, X2

ANOVA^b

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	96,869	7	13,838	3,088	,006 ^a
	Residual	336,095	75	4,481		
	Total	432,964	82			

a. Predictors: (Constant), X11, X10, X1, X4, X3, X9, X2

b. Dependent Variable: Y1

Table 4. Stepwise Method Regression

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-3,706	1,985		-1,867	,066
	X9	,990	,298	,346	3,323	,001
2	(Constant)	-3,677	1,942		-1,894	,062
	X9	,933	,293	,326	3,188	,002
	X2	1,076	,499	,221	2,155	,034

a. Dependent Variable: Y1

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,346 ^a	,120	,109	2,16883
2	,410 ^b	,168	,148	2,12160

a. Predictors: (Constant), X9

b. Predictors: (Constant), X9, X2

ANOVA^c

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	51,956	1	51,956	11,045	,001 ^a
	Residual	381,008	81	4,704		
	Total	432,964	82			
2	Regression	72,868	2	36,434	8,094	,001 ^b
	Residual	360,096	80	4,501		
	Total	432,964	82			

a. Predictors: (Constant), X9

b. Predictors: (Constant), X9, X2

c. Dependent Variable: Y1

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