CORPORATE GOVERNANCE AND FINANCIAL TRANSPARENCY: EVIDENCE FROM INDONESIAN MANUFACTURING COMPANIES

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Abstract

Corporate scandals enhance shareholders' concerns regarding the company's financial transparency**.** This study aims to examine the relationship between corporate governance and financial transparency. Multiple regression model is used to test the hypothesis on a sample of manufacturing companies listed on the Indonesian Stock Exchange from 2018 to 2022. The study find that financial transparency increases when frequency of audit committee activity and percentage of institutional ownership increases. However, the study find that independent commissioner has no impact on financial transparency.
Keyword: financial transparency, corporate governance, earnings management.

INTRODUCTION

Financial reporting scandals committed by corporations (e.g., Enron, Kimia Farma Tbk, Garuda Indonesia Tbk) raised serious issues regarding the transparency and reliability of financial statements of financial statements over the past decade (Elnahass et al., 2022). Financial transparency refers to the actual value of a business's economic performance as shown by the reporting of revenue statistics in its financial statements (Nair et al., 2019). Financial reporting must be accurate and transparent in order for stakeholders, including investors, to make well-informed business decisions (Zadeh et al., 2023)

Financial transparency is highly correlated with the quality of a company's earnings (Hassaan & Salah, 2023). Companies will present their financial condition more transparently if their earnings are of higher quality. In reality, nonetheless, businesses don't always embrace complete financial transparency (Salehi et al., 2023). This is related to management decisions about accounting options that support the business in

preserving its excellent reputation or averting bankruptcy (Hassaan & Salah, 2023). Fluctuating economic conditions and unpredictable business operations will encourage companies to manage their earnings so that shareholders perceive the company in a positive light

Within the regulations of accounting rules, accounting information is manipulated in order to manage earnings. By providing non-actual earnings, earnings management can lower the caliber and transparency of financial statements (Liao et al., 2023). Highly manipulating profits can lead businesses into controversies involving financial reporting fraud.

A mechanism capable of reducing earnings management is required in order to encourage corporate financial transparency. The best option for a preventative measure against methods of earnings management is good corporate governance. In general, improved business value and high transparency are linked to excellent governance (Hoang et al., 2021; Salehi et al., 2023; Xue & Niu, 2019). A set of standards known as corporate governance improves corporate management's accountability, responsibility, transparency, and fairness (Cadbury, 2002). Users of financial statements now consider financial transparency to be crucial, and as corporate governance is one of the key components of transparency, it is expected that businesses will practice good governance in order to improve corporate financial transparency (Salehi et al., 2023).

Previous research on corporate governance and financial transparency shows different results. The findings of studies conducted by (Elnahass et al., 2022; Nguyen et al., 2024) indicate the significance of corporate governance in preventing management from engaging in earnings management and enhancing the caliber and transparency of corporate finance. Independent commissioners, as a component of corporate governance, positively impact the financial transparency of companies, according to (Hassaan & Salah, 2023). However, Mangala & Singla, (2023) showed no association between independent commissioners and earnings management so that it cannot define the relationship between independent commissioners and financial transparency. In research conduct by (Katmon & Farooque, 2017), audit committee activity might lead to low financial transparency and more opportunities for corporations to engage in

earnings management. Research by (Elnahass et al., 2022; Hassaan & Salah, 2023) report that audit committee activity promotes financial transparency by curbing managers' ability to manipulate earnings. Raising the proportion of institutional ownership in a company's shareholder structure can improve financial transparency and lessen earnings management (Alghemary et al., 2023). Based on research by (Lassoued et al.,2017), institutional ownership gives managers more power to control reported earnings, which lowers the degree of financial transparency in businesses. The difference in previous findings prompts inquiry into the potential impact of corporate governance, as measured by the percentage of independent commissioners, audit committee operations, and institutional ownership, on financial transparency, testing is carried out to answer research questions.

Academics may derive value from this research by learning more about the connection between financial transparency and corporate governance, particularly as it relates to independent commissioners, audit committee activity, and institutional ownership. It is expected that the study's findings would strengthen the body of knowledge in the fields of corporate governance and financial transparency. Furthermore, studies on the impact of corporate governance (the interaction between independent commissioners, audit committee activity, and institutional ownership) on financial transparency are helpful for practitioners (policy makers) as they offer fresh insights and deepen practitioners' understanding prior to making business decisions.

This research's next section is organized up into four sections. The development of hypotheses and the review of the literature are presented in the second section. The third section reviews research variables, sampling, and data sources. The research findings are covered in the fourth part. The fifth component of this study presents the conclusion of the research findings.

THEORICAL BACKGROUND AND HYPOTHESIS DEVELOPMENT

Agency Theory

The agency theory serves as the foundation for the corporate governance conceptual framework (Fama & Jensen, 1983; Jensen & Meckling, 1976). Agency theory is a key framework for comprehending the relationship between managers and shareholders (Alghemary et al., 2023). According to this theory, agency problems and

conflicts of interest arise primarily from misaligned interests between managers and shareholders (Jensen & Meckling, 1976). Executive management's lack of integrity will lead managers to put their own interests ahead of shareholders' (Salehi et al., 2023). The rise of agency conflicts between management and shareholders will lead to a greater asymmetry information inside the company (Purwaningsih & Kusuma, 2020). Along with reliability and precise financial reporting, the cost of agencies can be decreased with effective corporate governance (Hassaan & Salah, 2023).

Financial Transparency and Corporate Governance

Transparency defined as the extent to which stakeholders are able to see the company's action (Xue & Niu, 2019). Since the financial crisis and corporate scandals, financial transparency and disclosure of financial information have gained importance and are being taken into consideration and enhanced by corporations (Torchia & Calabrò, 2016). A high level of transparency can mitigate the information asymmetry that exists between principals and agents (Fang & Zhou, 2012; Torchia & Calabrò, 2016).

Financial transparency is a multidimensional aspect of company information that is difficult to quantify directly, according to previous studies that have tried to determine it. Previous research has employed earnings as an indicator of a company's real financial performance in order to determine financial transparency (Hassaan & Salah, 2023; Hunton et al., 2006; Nair et al., 2019; Salehi et al., 2023). Great earnings quality is correlated with a high level of transparency. Earnings management strategies and improved earnings quality are inversely correlated. Thus, studies on earnings management and earnings quality can be used to investigate financial transparency (Hassaan & Salah, 2023; Purwaningsih & Kusuma, 2020).

In order to ensure that the company's financial transparency is high enough, policymakers and other stakeholders must be convinced by internal controls and good corporate governance (Bidabad et al., 2017). Corporate governance is defined as the policies and procedures that require board of commissioners and directors to maintain accountability and transparency (OECD, 2015). A group of business control measures

called corporate governance may be employed to avoid or lessen misbehaviour by management (Salehi et al., 2023). Enhancing transparency, financial disclosure, and minimizing conflicts of interest within the company's business divisions are all benefits or corporate governance, which increases investor confidence and encourages investment in the company (Buallay et al., 2017). Board of commissioners, directors, management ownership, executive compensation are instances of internal corporate governance structures. External mechanisms include institutional ownership, markets for corporate control, and liability levels (Barnhart & Rosenstein, 1998).

Presenting independent commissioners to the company's management levels is one of the internal procedures the organization uses. In assessing management and business behaviour, independent commissioners are very neutral and independent. Independent commissioners are thought to be an effective tool for monitoring manager effectiveness and discouraging unethical managerial practices (Uribe-Bohorquez et al., 2018). Independent commissioners have the authority to limit the company's ability to manipulate earnings and improve its financial openness. (Khan & Kamal, 2023).

POJK NO. 33/POJK.04/2014 about Directions and Board of Commissioners of Issuers or Public Companies defines independent commissioners as members of the board commissioners who are not affiliated with the company and come from outside the company. A board of commissioners with two members, one of whom must be an independent commissioner, is required by this regulation. The rule specifies that independent commissioners must hold at least 30% of the commissioner positions if the board of commissioners comprises more than two (2) members.

Agency theory argues that independent commissioners are more trustworthy when it comes to performing supervisory functions and minimizing managerial opportunistic behaviour (Elnahass et al., 2022; Katmon & Farooque, 2017). Through their oversight of managers' performance, independent commissioners play a significant role in boosting shareholder value (Choi et al., 2021). Due to their lack of significant association or affiliation with the corporation, independent commissioners are successful in managing control and monitoring (Mangala & Singla, 2023). As a result of the independent commissioners' increased monitoring, there are fewer chances for corporations to engage in earnings manipulation, and corporate finance is more transparent overall (Elnahass et al., 2022).

Financial transparency is positively impacted by the presence of independent commissioners, according to research by (Hassaan & Salah, 2023). These findings are consistent with (Elnahass et al., 2022), who looked at how independent commissioners affected earnings management and discovered that there was a negative relationship that increased financial transparency. According to (Salehi et al., 2023), there is a negative correlation between financial transparency and independent commissioners. Further studies by (Katmon & Farooque, 2017; Mangala & Singla, 2023; Sarkar et al., 2008; Wanda, 2022) demonstrate that financial transparency and earnings management are not impacted by the presence of independent commissioners.

H_1: Independent commissioners have a positive impact on financial transparency.

The corporate governance system states that an audit committee remain a part of the governance structure in an effort to increase corporate financial transparency. The purpose of the audit committee's presence in the company's management is to guarantee transparency and strong corporate governance procedures (Mohammad et al., 2016).

The primary responsibility of the audit committee is to support the board of commissioners in monitoring the company's operations. The audit committee's responsibility contains examining the business's internal control framework, guaranteeing the caliber of financial reports, and evaluating the audit function's efficiency (IKAI, 2023). Based on POJK NO. 55/POJK.04/2015 about the Establishment and Implementation Guidelines for the Audit Committee, the committee meet regularly, preferably four times a year, or at least once each quarter.

According to agency theory, audit committees' oversight of the financial statement production process should minimize agency issues that may occur between businesses and shareholders (Qamhan et al., 2018). A key consideration in determining the audit committee's efficiency within the organization is how often it meets. A high meeting frequent audit committee is thought to be more effective than a low meeting frequency audit committee. Meeting frequently shows how diligent and proactive the audit committee is in monitoring the financial reporting preparation process (Qamhan et al., 2018). Due to the high level of meetings, the audit committee frequently discusses

issues that arise inside the organization, particularly those pertaining to manager performance and the creation of financial statements and the subsequent development of suitable solutions. (Hassaan & Salah, 2023). The frequency of audit committee meetings is associated with a decrease in the level of current accrual discretion and the activeness of the audit committee is positively correlated with the effectiveness of corporate oversight (Xie et al., 2003).

Financial transparency and audit committee activity are positively correlated with the number of meetings held (Gebrayel et al., 2018; Hassaan & Salah, 2023). According to research, the frequency of audit committee meetings has a favourable impact on financial openness and a negative impact on earnings management practices (Inaam & Khamoussi, 2016; Xie et al., 2003). Different finding is addressed by (Katmon & Farooque, 2017) concluded that audit committee meetings will lead to more earnings management techniques and less financial transparency. According to the research conducted by (Mangala & Singla, 2023; Nikulin et al., 2022; Qamhan et al., 2018), there is no correlation between the activities of the audit committee and financial transparency and earnings management.

H_2: Audit committee activity have a positive impact on financial transparency.

One of the essential components of the external mechanism of the corporate governance system is institutional ownership. Investment firms, insurance providers, banks, and other institutional assets can all be considered institutional investors (Aminah & Wuryani, 2021).

Agency theory suggests that the ownership structure of the company can be a powerful governance tool to monitor management's involvement in earnings management practices (Alghemary et al., 2023), further (Githaiga, 2023) explained that institutional ownership is another powerful external governance tool that can be used to restrain earnings management. Institutional ownership provides the power to supervise the executive management of the company when it comes to informing shareholders. In supervision aimed at lowering agency expenses, managing directors, and enhancing the caliber of financial statements and investment efficiency, institutional ownership is crucial (Rashed et al., 2018). Managers' oversight function is enhanced by institutional investors' competence, professionalism, and superior resources (Lassoued et al., 2017).

Based on their great qualities, institutional investors are typically better at decreasing information asymmetry and keeping an eye on management performance (Githaiga, 2023).

In the perspective of earnings management that results in low financial transparency, effective institutional investor monitoring has a significant impact on firm executives' limited ability to engage in earnings management activities (Lemma et al., 2018)Major institutional investors in companies have the power to influence managers' actions, as they often seek personal enrichment (Lassoued et al., 2017). Increasing the percentage of institutional investors in the business can help it become less involved in procedures related to earnings management (Alghemary et al., 2023). Low practices in managing earnings are associated with a large proportion of institutional ownership (Ramalingegowda et al., 2021).

Previous research on the role institutional ownership plays in enhancing financial transparency by lowering earnings management has produced empirical evidence showing institutional ownership has a positive impact on financial transparency and a negative impact on earnings management practices (Alghemary et al., 2023; Arianpoor & Farzaneh, 2023; Githaiga, 2023). According to research by (Kolsi & Grassa, 2017), institutional ownership has no impact on earnings management. Lassoued et al., (2017) presents different findings, claiming that a rise in institutional ownership gives management more power to control earnings and lessen the financial transparency of the organization.

H_3: Institutional ownership has a positive impact on financial transparency.

RESEARCH METHODS

Research Objects and Data Collection

The object of the study is companies listed on the Indonesian Stock Exchange manufacturing sector from year 2018 until 2022. The annual reports and financial reports of manufacturing companies provide the research data. The Indonesian Stock Exchange main website, www.idx.co.id and official website of each companies provided the researchers with yearly reports and company financial information.

Purposive sampling method is use to choose sample. For a five-year research period, 78 companies in all were chosen as research samples. In order to remove issues with classic assumptions, some observation data are eliminated and 325 observation data are chosen for the study.

Operational Definition and Measurement of Variables

Dependent Variable

Dependent variable of the study is the level of financial transparency as measure by the values of discretionary accrual (DA). Discretionary accrual is estimates using modified jones model (Dechow et al., 1995). To measure DA, take the following steps:

First, calculate total accruals:

$$TACC_{it} = NI_{it} - CFO_{it} \quad (1)$$

Second, calculate accrual value estimates by simple regression model:

$$\frac{TACC_{it}}{A_{it-1}} = \beta_1 \frac{1}{A_{it-1}} + \beta_2 \frac{(\Delta REV_{it})}{A_{it-1}} + \beta_3 \frac{GPPE_{it}}{A_{it-1}} + \varepsilon_{it} \quad (2)$$

Third, calculate the value of non-discretionary accrual (NDA):

$$NDA_{it} = \beta_1 \frac{1}{A_{it-1}} + \beta_2 \frac{(\Delta REV_{it} - \Delta REC_{it})}{A_{it-1}} + \beta_3 \frac{GPPE_{it}}{A_{it-1}} + \varepsilon_{it} \quad (3)$$

Last, calculate the value of discretionary accrual (DA):

$$DA_{it} = \frac{TACC_{it}}{A_{it-1}} - NDA_{it} \quad (4)$$

Where: $TACC_{it}$ = Total accrual company i year t; NI_{it} = Net income company i year t; CFO_{it} = Cash flow from operating activity company i year t; A_{it-1} = Total asset previous year; ΔREV_{it} = Change in revenue from year t to t-1; ΔREC_{it} = Change in receivable from year t to t-1; $GPPE_{it}$ = Gross Property, Plant, Equipment (Fixed asset) company i year t; NDA_{it} = Non-discretionary accrual company i year t; and DA_{it} = Discretionary accrual company i year t.

The absolute value from calculation (4) use to determine accrual increases and decreases, the degree of financial transparency reduces as DA's absolute value rises. (Hassaan & Salah, 2023).

Independent Variables

Based on previous study (Elnahass et al., 2022; Hassaan & Salah, 2023; Salehi et al., 2023), commissioner independent variable measure as a proportion of commissioner independent on the company.

$$\text{IC} = \frac{\text{Total Independent Commissioner}}{\text{Total Commissioner}} \quad (5)$$

Previous study (Hassaan & Salah, 2023; Nikulin et al., 2022; Qamhan et al., 2018) proxies audit committee activity as a number of meetings held by audit committee in a year.

$$\text{ACA} = \text{Total meeting held by audit committee in a year} \quad (6)$$

Percentage of shares owned by institutional investor use to calculate the value of institutional ownership (Arianpoor & Farzaneh, 2023).

$$\text{IOWN} = \frac{\text{Total Shares held by Institutional Ownership}}{\text{Total Shares}} \text{ x } 100\% \quad (7)$$

Control Variables

Profitability is proxied by calculating return on assets (ROA).

$$\text{FP} = \frac{\text{Net Income}}{\text{Total Assets}} \text{ x } 100\% \quad (8)$$

Firm age reflects the length of time the company has been established and operating Firm age is calculated with formula:

$$\text{FA} = \text{Research year} - \text{Established year} \quad (9)$$

Previous literature has argued that firm growth is one of the factors that influence financial transparency (Chintrakarn et al., 2018; Hassaan & Salah, 2023). Firm growth was measured as:

$$\text{FG} = \frac{\text{Current Total Assets} - \text{Previous Total Assets}}{\text{Previous Total Assets}} \quad (10)$$

Data Analysis Methods

The study employed descriptive statistics to describe data using the mean, median, maximum, minimum, and standard deviation (Ghozali, 2018). Multiple regression analysis with a confidence level of 5% or 0.05 is used to test the hypotheses of the study. Research data has been free from classic assumptions issues. The following set of regression equations was adopted.

$$ABSDA_{it} = \alpha + \beta_1 IC_{it} + \beta_2 ACA_{it} + \beta_3 IOWN_{it} + \beta_4 FP_{it} + \beta_5 FA_{it} + \beta_6 FG_{it} + \varepsilon_{it} \quad (11)$$

Where: ABSDA = Absolute Discretionary Accrual; IC = Independent Commissioner; ACA = Audit Committee Activity; IOWN = Institutional Ownership; FP = Firm Profitability; FA = Firm Age; FG = Firm Growth; dan ε = Standard error

EMPIRICAL FINDINGS AND DISCUSSION

Descriptive Statistics

Table 1 shows mean, median, maximum, minimum, and standard deviation for each variable is used in this study.

Table 1 Descriptive Statistics Result

	ABSDA	IC	ACA	IOWN	FP	FA	FG
Mean	0.049180	0.413354	6.329231	75.60394	4.951818	41.34462	5.424273
Median	0.044753	0.380000	4.000000	84.45000	3.943000	41.00000	5.400441
Maximum	0.160170	1.000000	38.00000	99.98000	46.66000	90.00000	69.45345
Minimum	0.000606	0.250000	0.000000	1.240000	-44.75800	5.000000	-85.45407
Std. Dev.	0.034689	0.115927	4.552768	26.30422	9.508465	14.85853	12.12683
Obs.	325	325	325	325	325	325	325

Where: ABSDA = Absolute Discretionary Accrual; IC = Independent Commissioner; ACA = Audit Committee Activity; IOWN = Institutional Ownership; FP = Firm Profitability; FA = Firm Age; FG = Firm Growth; dan ε = Standard error

Source: Authors own work

Dependent variable, absolute values of DA (ABSDA), measure by modified jones model, has a mean of 0.049180 with a maximum value of 0.160170 and minimum value of 0.000606. The result suggests that Indonesian manufacturing companies execute earnings management at various degrees. These finding is consistent with a study by (Hassaan & Salah, 2023) that demonstrates different degrees of DA in

companies listed on Egyptian Stock Exchange. The average independent commissioner is 0.413354 or 41.3% with highest value 1 and lowest value 0.25. Mean value 0.413354 indicates that generally Indonesian manufacturing companies have complied with POJK NO.33/POJK.04/2014 which mandates that independent commissioners make up at least 30% of the board of commissioners. However, some companies continue to fail to comply with the regulations, with a minimum value attained of 25% as opposed to the stipulated 30%. Based on POJK NO.55/POJK.04/2015, audit committee must meet at least four (4) times annually. In general, manufacture companies in Indonesia have fulfilled the regulations with mean value 6.329231, which means companies conducts an average of 6 meetings a year. However, there is still companies whose audit committees do not hold meetings at all in a year, shows with minimum value 0. The mean of institutional ownership is 75.60% with maximum 99.98% and minimum 1.24%, indicating that manufacturing stock market in Indonesia still dominated by institutions rather than by individuals or management. With an average age of 41 years, manufacturing companies in Indonesia have been generally in operation for a long period, with average profitability and growth of 4.9% and 5.4%, respectively. According to this study, Indonesian manufacturing companies make an effort to maintain sound corporate governance practices and adhere to local laws.

Hypothesis Test

The study used the fixed effect model's regression result based on the Hausman test. The coefficient of determination result shows adjusted r-squared value of 0.295799, which means only 29.58% of the dependent variable explanation could be attributed to the study's independent variables, with the remaining 70.42% influenced by other variables that were not examined in the study. The result of F statistic test show probability value (F-statistic) of 0.0000 ($p < 0.05$). This result means that independent variables influence the dependent variables simultaneously. The results of these tests are displayed in Table 2.

Table 2 Hypothesis Testing Result (Fixed Effect Model)

Variable	N	Coefficient	Std. Error	t-Statistic	Prob.
C	325	0.036156	0.052868	0.683901	0.4947
IC	325	0.036372	0.032881	1.106156	0.2698
ACA	325	-0.002452	0.001096	-2.237798	0.0261
IOWN	325	-0.000875	0.000356	-2.454117	0.0148
FP	325	-0.001285	0.000415	-3.099065	0.0022
FA	325	0.002166	0.001192	1.816767	0.0705
FG	325	-0.000650	0.000181	-3.580416	0.0004
R-Squared		0.476196			
Adjusted R-squared		0.295799			
Prob (F-statistic)		0.000000			
Hausman Test:					
Chi-square		16.042418			
Prob		0.0135			

Source: Authors own work

Based on Table 2, hypothesis testing revealed that insignificant relationship, probability value 0.2698 ($p > 0.05$), between independent commissioner and financial transparency, implying that hypothesis H_1 was declined. The effectiveness of independent commissioners in curbing earnings management and enhancing corporate financial transparency is not proven. The fact that audit committee spends more time discussing earnings management could be one of the reasons in the insignificant result. Even though independent commissioners have a supervisory role, the audit committee is more active and has a supervisory role than independent commissioner in the process of compiling and presenting financial statement (Mangala & Singla, 2023). Sarkar et al., (2008) argued that the quality (knowledge and lack of busyness) of independent commissioners, not their proportion, determines the efficiency of the board of commissioner in raising the quality of financial statements and financial transparency. The findings concur with previous study (Katmon & Farooque, 2017; Mangala & Singla, 2023; Wanda, 2022), but contradict with (Elnahass et al., 2022; Hassaan & Salah, 2023), who found negative (positive) relations between independent commissioner and earnings management (financial transparency) and research by

(Salehi et al., 2023) that concluded positive (negative) significant relationship between independent commissioner and earnings management (financial transparency).

Audit committee activity indicate significant negative (positive) relationship with earnings management (financial transparency), probability value 0.0261 ($p < 0.05$), suggesting that hypothesis H2 was accepted. The result consists of agency theory, which contends that frequent meetings and adequate audit committee monitoring will avert agency issues. The study finding is in line with previous studies (Gebrayel et al., 2018; Hassaan & Salah, 2023; Inaam & Khamoussi, 2016; Xie et al., 2003), concluded that increase in meeting frequency will increase the effectiveness of monitoring so as to reduce earnings management while increasing financial transparency and quality of financial statements. However, the findings contradict those of (Katmon & Farooque, 2017) who found that audit committee activity provide positive (negative) influence to earnings management (financial transparency) as well as findings from (Mangala & Singla, 2023; Nikulin et al., 2022; Qamhan et al., 2018) demonstrating that audit committee activity not significantly correlated with financial transparency and earnings management.

The study findings indicate a negative (positive) and significant relationship between institutional ownership and earnings management (financial transparency) with probabilitu value 0.0148 ($p < 0.05$). The findings concur with earlier research (Alghemary et al., 2023; Arianpoor & Farzaneh, 2023; Githaiga, 2023), support hypothesis H_3 and agency theory, which postulate that institutional ownership might be a useful instrument in limiting manager's involvement in earnings management. As enduring shareholders, institutions frequently keep an eye on the decisions and activities taken by managers (Githaiga, 2023). Appropriate performance monitoring for managers will limit their ability to manipulate earnings and improve the financial transparency. Reducing the company's engagement in earnings management can be accomplished in part by increasing the percentage of institutional ownership (Alghemary et al., 2023). However, the study findings differ from (Kolsi & Grassa, 2017), who show that institutional ownership has no impact on financial transparency and earnings management, as well as findings by (Lassoued et al., 2017), who concluded that there is

a significant positive (negative) relationship between earnings management (financial transparency) and institutional ownership.

CONCLUSION

The objective of the study is to understand the influence of corporate governance on financial transparency. Using research year from 2018 until 2022, the hypothesis was test on manufacturing companies listed on Indonesian Stock Exchange. The corporate governance structure studied are independent commissioner, audit committee activity, and institutional ownership. The level of financial transparency is explained by the absolute value of discretionary accrual. Hypothesis testing find that audit committee activity and institutional ownership has a positive significant effect on financial transparency. Managers earnings management tactics will be restrained by regular audit committee meetings and prominent displays of institutional ownership in the ownership structure, which will also improve financial transparency and the caliber of financial statement. The study reveals that independent commissioner has no impact on financial transparency.

Study result contribute to the previous study about the relationship between corporate governance and financial transparency. Previous studies reveal different result, which makes the study's findings offer proof both in favor of and against the findings of the previous study. The study findings also add the diversity of research result that can be investigated further. Finally, the study offers a few study limitations that open up new research directions. First, the scope of the sample is too small. The study just using manufacturing companies as a sample, more extensive sampling will likely be used in future studies to obtain more precise findings. Second, corporate governance mechanism that used in this study limited to independent commissioner, audit committee activity, and institutional ownership. Future study can add another variable such as activity of director and commissioner, director and commissioner expertise, managerial ownership, dan other corporate governance component thus the result of the study have better representation of corporate governance. Lastly, the level of financial transparency only measured by single proxy namely discretionary accrual modified jones model. Further study expected another measure such as earnings aggressiveness, income smoothing, discretionary accrual Kothari model for provide better empirical evidence.

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