DETERMINATION OF CORPORATE GOVERNANCE DISCLOSURE

Case Study on Islamic Banking in Indonesia

Chrisna Suhendi
Maya Indriastuti
Dept. of Accounting, Faculty of Economics
Sultan Agung Islamic University
(UNISSULA), Semarang, Indonesia
email: chrisnasuhendi@unissula.ac.id ;
maya@unissula.ac.id
Tel: + 6281325671964; +6281575372844

ABSTRACT

Corporate governance concept focuses on two things, firstly, the right of shareholders to obtain information on time and correctly, secondly, the company's obligation to reveal all information the company's performance accurately, timely and transparently to stakeholders. Disclosure of corporate governance is influenced by several factors; these are the dispersion of ownership, board size, company size, and profitability. This study aimed to look at the factors that influence the corporate governance disclosure This study population using all banking companies listed in Islamic Banks (BUS) during 2011-2014 that as many as 44 Islamic Banks. The sample was taken by purposive sampling method. The results of this study indicate that simultaneously all independent variables have a significant positive effect on corporate governance disclosure. Partially ownership dispersion and board size has positive influence on corporate governance disclosure.

Keywords: corporate governance disclosure, the dispersion of ownership, board size, company size, and profitability.

Background

Corporate governance practices in the modern enterprise has increased in the last decade, especially since the collapse of major US corporations such as Enron Corporation and Worldcom. In Indonesia, the government's attention to this problem is realized with the establishment of Komite Nasional Kebijakan Governance (The National Committee on Governance Policy =NCGP) at the end of 2004.

Corporate Governance is a process and structure that applied to running the company with the main goal of improving shareholder value in the long term by taking into account the interests of other stakeholders (shareholders, creditors, suppliers, customers, employees of corporations, governments and communities that interact with the company). Corporate governance concept focuses on two things, firstly, the right of shareholders to obtain information on time and correctly, secondly, the company's obligation to reveal all information the company's performance accurately, timely and transparently to stakeholders. (Zef, 2012).

Corporate governance is important to maximize the company’s value added in order to win the global competition, to prevent a fraud and corruption, to encourage the creation of a market that is efficient, transparent and consistent with legislation that is based on some basic principles of good corporate governance (Transparency, Accountability , Responsibility, Fairness). In addition, corporate governance can minimize the cost of capital, improve the corporate image, and increase the value of company stock (Zef, 2012).

Iskander and Chamlou (2000) in Wisdom et al., (2011) stated that the economic crisis in Southeast Asia and others countries is not only caused by macroeconomic factors, but also caused by the weak of corporate governance, such as legal weak, weak of

commissioner supervision, and the neglect of minority rights.

Some of research result of corporate governance disclosure in Indonesia companies are affected by (1) Ownership Dispersion {(Sayono, 2006); Rini (2012) and Pramono, 2011)}; (2) Company Size {(Sayono, 2006); Pramono, 2011); Wisdom et. al., 2011); and Natalia and Zulaikha, 2012)}; (3) the number of commissioners {(Sayono, 2006); Rini (2010); and Wisdom et. al., 2011)}; (4) profitability (Natalia and Zulaikha, 2012).

Jifri and Hussainey (2007) states that corporate governance disclosure in America coporate is only influenced by the profitability. Disclosure of corporate governance in a Canadian company is influenced by firm size and profitability (Maingot and Daniel, 2008) as similarly as in Bangladesh (Bhuiyan and Biswas, 2007), while in Malaysia is only influenced by the size of the company (Mohammed et al., 2009).

The Effect of Owners Dispersion to Corporate Governance Disclosure

Companies with a high level of ownership dispersion will reveal any information in high level too (Jensen and Meckling, 1976). This is fit the needs of each investor and as a responsibility to investors.

Sayono (2006); Rini (2010); and Pramod (2011) state ownership dispersion has a positive influence on corporate governance disclosure.

H_1: Owners Dispersion has a positive effect on corporate governance disclosure.

The Effect of Commissioners Board Size to Corporate Governance Disclosure

The commissioners need to monitor and control managers behavior actions (Jensen and Meckling,1976). The greater number of commissioners will be easier to control and supervise the manager performance effectively. Therefore, disclosure undertaken by management will also increase [Sayono, (2006); Rini (2010); and Wisdom et al., (2011)].

H_2: The size of the board of commissioners has positive influence on corporate governance disclosure.

The Effect of Company Size to Corporate Governance Disclosure

Companies with a larger size tend to have a more complex relationship with the stakeholders, so that the company will provide relevant information to stakeholders [Natalia and Zulaikha (2012) and Wisdom et al., (2011), Mohammed et al., (2009) and Sayono (2006)]. Increased levels of corporate governance disclosure will reduce agency costs and information asymmetries (Natalia and Zulaikha, 2012).

H3: Company Size has positive effect on corporate governance disclosure.

The Effect of Profitability to Corporate Governance Disclosure

Profitability is the ability of a company to make a profit on sales, assets and stock capital (Retrinasari,2007). Increasing in the number of profit must be accompanied by Information disclosure, especially, information regarding to corporate governance. This information can be viewed as a company's responsibility for the use of funds.

Natalia and Zulaikha (2012); Jifri and Hussainey (2007) states that profitability has a positive effect corporate governance disclosure.

H4: Profitability has positive effect on corporate governance disclosure.

Research methods

Population and Sampling

The population used in this study are all Islamic Banks, operating in 2011-2014. Sample were selected by purposive sampling, with the following criteria: (1) publish an annual report and corporate governance report

for the period 2011-2014; (2) the content of that report includes things that must be disclosed by Islamic Banks (BUS) accordance with Article 62 of Bank Indonesia Regulation No. 11/33 / PBI / 2009; and (3) an annual report published by the BUS must possess completeness of the data used in this study.

Operational Definition and Measurement of Variables

Table 1

No	Variable Name	Operational Definition	Measurement of Variables
1	Corporate governance disclosure (Y)	The Way to ensure that management acts is the best for stakeholders.	Measured by a composite score based on quality ratings GCG bank conformity. The implementation of SEBI regulation No. 12/13 / DPbS Year 2010.
2	Ownership Dispersion (X_1)	Dispersed shareholding owned by individual investors.	Percentage shares held by shareholders whose ownership ≤5%.
2	The size of the Board of Commissioners (X_2)	The number of commissioners owned by the company, consisting of the Chief Commissioner, the independent commissioner, and the commissioner.	The number of commissioners that is owned by the company.
3	Company Size. (X_3)	Large or small a company.	Total assets of the company.
4	Profitability (X_4)	The ability of a company to generate a profit on the level of sales, assets and stock capital.	Measured by *Return on Assets* (ROA). $ROA = \frac{\text{Net Profit After Tax}}{\text{Average Assets}}$

Sources : Hikmah *et al.*, 2011

Sources : Hikmah *et al.*, 2011

Data Analysis

The analytical method used is multiple linear regression, using SPSS 20 with the model equations as follows :

$$CGD = a + b_1 OD + b_2 BoC + b_3 CZ + b4\ P + e$$

Note:
CGD = Corporate Governance Disclosure (Y)
OD = Ownership Dispersion (X_1)
BoC = Board of Commissioners (X_2)
CZ = Company Size (X_3)
P = Profitability (X_4)
e = Standard Error

Results.

The Result can be seen as follows :

No	Variables	T	Sig.
1	Ownership Dispersion	0,218	0,017
2	Size BOC	2,816	0,012
3	Company Size	-1,150	0,251
4	Profitability	-2,118	0,156
F count			2. 465
F Sig			0,012
Adjusted R Square			0,523

It can be seen that, all independent variables together have a significant positive effect with significant F value of 0.012 and the dependent variable can be explained 52,3% by the independent variable. The results of the partial test showed that the variables of ownership dispersion(OD) and board size(BoC) have a significant positive effect (sig. Below 5%) to the corporate governance disclosure, while firm size and profitability variable have a negative impact not significant (sig. above 5%).

Discussion

Effect of Dispersion Owners to Corporate Governance Disclosure.

Owners dispersions have a positive effect to the corporate governance disclosure, the results accordance to the agency theory. Jensen and Meckling(1976) states that companies with a high level of ownership dispersion will disclose high. Ownership dispersion owned by an individual have an ability to pressure on the management regarding corporate governance. This disclosure in accordance with the needs of each investor. Disclosure can be viewed as a form of responsibility to investors. The results of this study are consistent with research done by Sayono (2006) and Pramod (2011) which states that ownership dispersion positive influence on corporate governance disclosure. but not in line with the research Hikmah et.al. (2011).

Effect of BoC to Corporate Governance Disclosure.

Board size has positive influence to corporate governance disclosure. Board of Commissioners have responsible to control

and provide consultation to management, especially on management strategic options in decision making. The greater the commissioners become more effective. It is possible for management to prepare and fight for very complex obstacle. The results of this study are consistent with the Wisdom et. al. (2011) which states that the board size has positive influence on corporate governance disclosure. However, this result is not inline with Sayono (2006).

Company Size Effect to Corporate Governance Disclosure

Size negatively affect the company's corporate governance disclosure. The size of the company described the large or small companies. Companies with a larger size tend to have a more complex relationship with stakeholders. More complex relationships can be seen from the increasing number, types, and demands of stakeholders. Increased complexity Companies tend to eliminate the focus on corporate governance disclosure because of the many demands of stakeholders, so that eventually the company will try to provide information without regard to its focus (Pramono, 2011). These results are in contrast to studies Sayono (2006); Mohammed et.al. (2009); Pramono (2011); Wisdom et. al., (2011); and Natalia and Zulaikha, (2012).

Profitability Effect to Corporate Governance Disclosure

Profitability has a negative effect on the disclosure of corporate governance. This happens because when profitability increased, investors often ignore the information as a whole so that the management is not motivated to do the disclosure of corporate governance, whereas when the company experienced a decline in profitability, the company will tend otherwise to face market pressure and convince the markets will be the company's performance in the period next (Jifri and Hussainey 2007; Natalia and Zulaikha, 2012). This result is not the same as research Hikmah et.al. (2011), Pramod (2011) and Sayono (2006).

Conclusion

Based on the research that has been done, it can be concluded: the dispersion of ownership and board size have positive influence on corporate governance disclosure. The owners will ask for more disclosure to oversee the management of opportunistic behavior in comparison with companies that have concentrated ownership. Controling of management behavior can be done by added the number of commissioners in the company. On the other hand, firm size and profitability have negative affect to corporate governance disclosure. The firms with larger size tend to have a more complex relationship with stakeholders, and it will tend to eliminate the focus on corporate governance disclosure. Besides that, the increase in profitability will cause investors often ignore the information as a whole, so the management is not motivated to reveal corporate governance disclosure. In opposite, when the company has a decline in profitability, the company will tend fight to market pressure and convince the markets will be the company's performance in future periods.

BIBLIOGRAPHY

Aljifri, Khaled and Hussainey Khaleed. 2007. "The Determinants of Forward-looking Information in Annual Reports of the UAE Companies", *Journal of Emerald Insight*

Bapepam. 2006. KEP-134 / BL / 2006 Obligation to Submit Annual Report for Issuers or Public Companies. www.bapepam.go.id

Bhuiyan, Md Hamid Ullah and P.K. Biswas. 2007. "Corporate Governance and Reporting: An Empirical Study of the Listed Companies in Bangladesh ", Journal of Business Studies

Ghozali, Imam. 2013. "Applications Multivariate Analysis with SPSS Program". Semarang: Diponegoro University Publishers Agency

Hikmah Noor, Chairina, and Desilarina Rahmayanti. 2011. "Factors Affecting Broad Corporate Governance Disclosure The Banking Companies Listed in

Indonesia Stock Exchange", Accounting National Symposium XIV

Maingot, Michael and Daniel Zeghal. 2008. "An Analysis of Corporate Governance Information By Canadian Banks", Corporate Ownership & Control Vol. 5 Issue 2 Winter 2008

Mohammed, Rusnah, Suhaily Shahimi, Yazkhiruni Yahya, Nurmazilah Mahzan. 2009. "Disclosure Quality on Governance Issues in Annual Reports of Malaysian PLCs", Journal of International Business Research

Natalia Petri and Zulaikha. 2012. "Analysis of Factors Affecting Corporate Governance Disclosure in Annual Report", Journal of Accounting Diponegoro Vol. 1 No. 1

Pramono, Adriawan Ferry. 2011. "Effect Analysis Company Characteristics on the Quality of Corporate Governance Disclosure in Annual Report", Journal of Economics and Business, University of Diponegoro

Rini, Kartika Amilia. 2010. "Size Analysis Disclosure of Corporate Governance in the Annual Report of Public Companies in Indonesia", Journal of Economics and Business, University of Diponegoro

Sayono, Djoko Sigit. 2006. "The Determinants of Corporate Governance Disclosure Through Internet for Companies Listing in Jakarta Stock Exchange", Accounting Symposium IX

Zef Zabadi Fairu. 2012. Importance of Good Corporate Governance In A Company. http://fairuzabadizef.com/2012/12/23/pentingnya-good-corporate-governance-dalam-sebuah-perusahaan/. Accessed April 7, 2016.