EXPLORING CORPORATE GOVERNANCE DISCLOSURE FACTORS ON BANKING INDUSTRIES IN INDONESIA STOCK EXCHANGE

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ABSTRACT

The emerging scandals of many companies cause vast economic damages, especially in financial sector. Frauds upon annual reports lead companies go bankrupt. Thus, some actions must be taken to overcome those conditions. One of them is by implementing corporate governance mechanisms to stock exchange listed companies. The corporate governance mechanisms are expected to improve companies' management through some disclosures. By identifying factors of corporate governance disclosure on banking industries hopefully can improve the whole financial system. The purpose of this study is to analyze factors of corporate governance disclosure which consist of dispersion ownership, company size, profitability, listing age, and the board of commissioner size in Indonesia Banking Industries using corporate governance disclosure indexes. This study will provide illustration about what factors influence corporate governance disclosure. The research population is 93 banks. 71 banks were selected as samples using purposive sampling method. Three year company annual reports of 2009 to 2011 are used as secondary data sources of this research. Furthermore, the disclosure index technique is used to get the data of CG disclosures. The results indicate that company size is the only factor influencing corporate governance disclosure in Indonesia Banking Industries.

Keywords: corporate governance disclosure index, banking industry, company size

INTRODUCTION

Background

Bankruptcy cases of some large companies such as Enron, Worlcom and etc. are caused by frauds on financial statements. The main relevant stakeholders feel the impact of these cases. Furthermore, it also leads to the emergence of public doubts upon the information provided by the companies in their financial statements. Iskandar and Chamlou (quoted by Hidayah, 2008) find that economic crisis in Southeast Asia and other countries is not only resulted from macro-economic factors, but also because of the poor CG implementation mechanisms in those countries that CG becomes one of important subjects discussed in order to support and accelerate the economic recovery and to improve stable economic performance in the future.

Cadburry (quoted by Rini, 2010) states that the disclosure of CG implementation in the existing firms is very important. The accuracy, punctuality, and transparency of CG disclosure will increase the company value and provide relevant information to all stakeholders. Factors affecting CG disclosure include dispersion ownership, firm size, profitability, listing age, and the board of commissioners.

The previous researches on factors influencing CG disclosure show various results. For instance, in the research of Natalia and Zulaikha (2012) find the audit committee independence, company size, profitability, *leverage* and industrial classification significantly influence CG disclosure.

Hikmah et al. (2011) states that the company size, listing age, and board size significantly influence CG disclosure while the dispersion ownership and profitability negatively influence CG disclosure. The research of Muhamad et al. (2009) shows that the results of *leverage*, firm size, and industrial type significantly influence CG disclosure while the audit committee independence, profitability, and auditor size negatively influence CG disclosure. From the results above, this study aims to re-examine factors influencing CG extensive disclosure referring to the research of Hikmah et al. (2011). However, there is difference between this study and the previous. This research uses banking company as research population with observation year from 2009 to 2011.

LITERATURE REVIEW AND HYPOTHESES FORMULATION

The Influence of Dispersion Ownership to Corporate Governance Disclosure

The dispersing share held by individual investor is called dispersion ownership. Company with dispersed shares will conduct higher disclosure, as stated in the agency theory (Rini, 2010). Dispersion ownership is defined as the ownership of shares owned by many investors (dispersed). Each investor has different needs of information about the company.

Therefore, the more the company share ownership dispersed, the more extensive the corporate *governance disclosure*. This is conducted to meet the needs of each investor and also as form of responsibility to stakeholders. The previous research (Kusumawati, 2007) showed positive results between dispersion ownership and corporate governance effectiveness. Thus, the hypothesis can be formulated as follows:
H_1: dispersion ownership positively influences corporate governance extensive disclosure.

The Influence of Company Size to Corporate Governance Disclosure

The company size shows whether the company is large or small (Rini, 2010). Large companies normally have also a large number of stakeholders. This makes the relationship between company and stakeholder is not as simple as the small-sized company. Companies with a large number of stakeholders will have number of demands on information.

To meet these demands, the company tried to have disclosure transparency. One of transparency forms is CG implementation mechanism disclosure. The disclosure is expected to be able to reduce the asymmetric information that possibly minimizes costs of agency (Natalia and Zulaikha, 2012). The previous research (Maingot and Zeghal 2008, and Hikmah et al., 2011) shows positive results between the company size and company disclosure level conducted. Thus, the hypothesis can be formulated as follows:
H_2: company size positively influences corporate governance extensive disclosure.

The Influence of Profitability to Corporate Governance Disclosure

Profitability is the company performance or ability to generate profits. Muhamad et al. (2009) states that when the company has higher level of profitability, tendency to perform more extensive disclosure occurred. In addition to maintain good image, company feels that sufficient resources are available to attract new investors and retain the existing ones.

The higher the level of profitability, the more CG disclosure implementation can be improved. This is supported by the research of Aljifri and Hussainney (2007) and Natalia and Zulaikha (2012) as well. Thus, the hypothesis can be formulated as follows:
H_3: Profitability positively influences corporate governance extensive disclosure.

The Influence of Company Listing Age to Corporate Governance Disclosure

Listing age shows the company duration listed on stock market (Sekaredi, 2011). Company with long listing age will make improvements to the information disclosure from time to time. The company is considered to have more sufficient experience than the company with short listing age in terms of CG information disclosure implementation.

Companies with more experience will have better understanding to the user needs and know more about what information is relevant to the user needs (Rini, 2010). The previous researches (Yularto and Chariri, 2003; and Hikmah et al., 2011) showed positive results between listing age and corporate governance effectiveness. Thus, the hypothesis can be formulated as follows:
H_4: company listing age positively influence corporate governance extensive disclosure.

The Influence of the Board of Commissioner Size to Corporate Governance Disclosure

Board size is the total number of commissioners of company. Each board member has equal position. In agency theory, the board is required to monitor and control the actions of managers due to their opportunistic behavior (Rini, 2010).

The company manager performance will be more effective under the control and supervision of the board of commissioners. The more the number of board members and the supervisory control functions will be more effective (Sembiring, 2005). The disclosure conducted by management will also get higher. This is also supported by Sembiring (2005) and Hikmah et al.,(2011) that show positive result between board size and the corporate governance effectiveness. Thus, the hypothesis can be formulated as follows:
H_5: the extensive of commissioner size positively influences corporate governance disclosure.

METHODS

Population and Sample

The population of this study is banking companies listed on Indonesia Stock Exchange (ISX) of 2009-2011. The purposive sampling technique is used to conduct the research, with the following criteria: (1). Banking companies listed on Indonesia Stock Exchange during the observation period of 2009-2011. (2). Total equity and net income before taxes is negative. (3). Samples contain the required variable data. Based on those criteria, 71 companies are obtained as the samples.

Operational Definition of Variables

1. Dependent Variables

The dependent variable in this study is the corporate governance extensive disclosure presented in company annual reports. CG disclosure is measured with corporate governance disclosure index. The disclosure index is calculated with the following formula (Bhuiyan and Biswas, 2007; Rini, 2010):

$$GCDI = \frac{\text{Total items that the company disclosed}}{\text{Maximum Score that the company should disclose}} \times 100\ \%$$

2. Independent Variables

a. Dispersion Ownership (DO)
Dispersion ownership variable is represented by the percentage of dispersed shares owned by shareholders of ≤ 5 % (Hikmah et al., 2011).

b. Company Size (CS)
Company size shows the property size owned by the company. Company size is measured with the company total assets (Hikmah et al., 2011). Total assets then are converted into natural logarithm.

c. Profitability (P)
Profitability is proxied with return on equity (ROE). ROE can be calculated with the formula:

$$\text{Return on equity (ROE)} = \frac{\text{After taxed net profit}}{\text{Total equity}} \times 100\ \%$$

d. Company listing age (LS)
Listing Age variable is measured with the difference between year of annual reports and year of company listed on Indonesia Stock Exchange (Hikmah et al., 2011).

e. The Board of Commissioners Size (BCS)
Board size is the number of board members in the company, which consists of chief commissioner, independent commissioner, and commissioner (Hikmah et al., 2011).

Technique of Analysis

Technique of analysis used to examine the influence of company size, company listing age, dispersion ownership, profitability, board size, and audit committee independence to corporate governance extensive disclosure is multiple regression analysis with the following equation:

$$\text{Ln CGDI} = a + b_1 \text{ Ln TA} + b_2 \text{ Ln UL} + b_3 \text{ Ln DO} + b_4 \text{ Ln ROE} + b_5 \text{ Ln BCS} + b_6 \text{ Ln ACI} + e$$

Description:
CGDI = Corporate Governance Disclosure Index
TA = Total Assets
LS = Listing Age
DO = Dispersion Ownership
ROE = Return On Equity
BCS = the Board of Commissioners Size
IKA = Audit Committee Independence
e = standard error

RESULTS AND DISCUSSION

Table 1
The Analysis Results of Research Variable Descriptive Statistics
Descriptive Statistics

Variabel	N	Minimum	Maximum	Mean	Std. Deviation
KD	71	.01	.50	.2285	.14326
UP	71	28.06	33.79	310.685	165.688
P	71	.01	.16	.0713	.03605
UL	71	.00	29.00	103.803	740.920
UDK	71	2.00	9.00	51.127	175.295
IPCG	71	.39	.82	.6383	.11320
Valid N (listwise)	71				

Source: Processed Secondary data, 2013

Total population of banking companies in Indonesia Stock Exchange is 31. After 3 year observation over the population, 71 company data are selected that meet the criteria of samples. All variables pass the classical assumption test. From the descriptive statistical analysis, the results show that each variable has smaller deviation standard value than the average. Those suggest that each company of the samples almost has the same quantity. Results of the descriptive statistics are presented in Table 1 .

Table 2. Hypothetical Result Summary

Hypothesis	Significant Value	Result
H_1: dispersion ownership positively influences corporate governance extensive disclosure.	0.394 > 0.05	H_I rejected
H_2: company size positively influences corporate governance extensive disclosure.	0.03 < 0.05	H_2 accepted
H_3: Profitability positively influences corporate governance extensive disclosure.	0.988 > 0.05	H_3 rejected
H4: company listing age positively influence corporate governance extensive disclosure.	0.672 > 0.05	H_4 rejected
H_5: the extensive of commissioner size positively influences corporate governance disclosure.	0.169 > 0.05	H_5 rejected

The Influence of Dispersion Ownership to Corporate Governance Extensive Disclosure

The company dispersion ownership test results show that dispersion ownership does not influence corporate governance extensive disclosure. This is in line with the research by Hikmah et al. (2011). However, these results are not in line with the research by Kusumawati (2007) who finds that dispersion ownership positively influences corporate governance extensive disclosure.

Dispersion ownership is represented with the proportion of shares held by individual shareholders. The total shares are dispersed to many shareholders. Since each shareholder has only small percentage of shares, they do not have the power to suppress the management, including to the corporate governance disclosure (Rini, 2010).

Companies with dispersed share ownership rate are assumed to perform the corporate governance extensive disclosure. However, the results of study show that there are companies with higher level of dispersion ownership merely disclose slightly. Conversely, companies with lower level of dispersion ownership disclose more. It means that the level of dispersion ownership does not influence the corporate governance extensive disclosure.

The Influence of Company Size to Corporate Governance Extensive Disclosure

The results of hypothesis showed that company size variable influences corporate governance extensive disclosure. These results are in line with the study of Hikmah et al. (2011) and Rini (2010) that company size influences corporate governance extensive disclosure. In contrast, these results are not in line with the research of Pramono (2011) who shows that company size does not influence corporate governance extensive disclosure.

Companies with larger sizes tend to have more complex relationships with the stakeholders than the smaller ones. This complex relationship is shown with the increasing number, types, and stakeholder demands.

To accommodate these demands, the company will disclose more extensive information of CG. In addition, the increasing level of corporate disclosure reduces costs of agency and asymmetric information (Natalia and Zulaikha, 2012).

The Influence of Profitability to Corporate Governance Extensive Disclosure

The hypothetical test results of profitability variable show that profitability does not influence corporate governance extensive disclosure. These results are in line with the study of Hikmah et al. (2011), Pramono (2011), and Sayono (2006) who show that the profitability does not influence corporate governance extensive disclosure. However, these results are not in line with the research of Natalia and Zulaikha (2012) who show that profitability influence corporate governance extensive disclosure.

This is because when profitability increases investors frequently neglect the existing information available that management are not motivated to perform corporate governance disclosure. In contrast, when profitability decreases, company tends to provide more CG disclosure information to deal with market pressures and to convince market upon the company performance in future periods (Natalia and Zulaikha, 2012).

The Influence of Listing Age to Corporate Governance Extensive Disclosure

The results of hypothesis show that listing age variable does not influence corporate governance extensive disclosure. These results are not in line with the study of Hikmah et al. (2011) showing that listing age influence corporate governance extensive disclosure.

This is because new companies have greater interest to extensively disclose to get public attention. In the other hand, old companies are already widely known by the public that information does not seem to be given extensively (Putri, 2011).

The Influence of the Board of Commissioners Size to Corporate Governance Extensive Disclosure

The hypothetical test results show that the board size does not influence corporate governance extensive disclosure. These are in line with the study of Rini (2010). However, they do not support the study by Hikmah et al. (2011) which shows that board size influence corporate governance extensive disclosure.

In company, the board of commissioners is in charge and responsible to supervise and provide consultations and suggestions to management regarding to the strategic options for management decision making. By having larger board members, more suggestions are possibly given to management that unfortunately the performance becomes less effective including to the decision making and corporate governance disclosure as well (Rini, 2010).

In addition to the reasons above, there are other possible reasons that board size does not influence the corporate governance extensive disclosure. When company holds commissioner election, it is possibility that the board will appoint one person or persons to serve as commissioner. Consequently, it may result in the ineffective function of the board of commissioners since commissioners will consider the board of commissioner interests.

CONCLUSIONS AND IMPLICATIONS OF RESEARCH

Based on the research results conducted, it can be concluded that among the existing factors, only company size that influences corporate governance disclosure. This is due to several limitations of the study, among others: (1). three year observation is a short period. (2). Due to the subjectivity of the researcher in the use of disclosure index. By paying attention to some limitations of the study that has been submitted, suggestions for further research are given as follows :

1. Researchers should improve the research period to obtain bigger samples for the study.
2. The assessment of corporate governance disclosure index can be conducted with the involvement of multiple researchers to reduce subjectivity level of assessment upon corporate governance disclosure index.

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Corporate Governance Disclosures Index

No	Indicator	Disclosure Items
1.	Shareholder	1. The description of shareholders' rights. 2. Statement of right guarantee shareholder protection the same as shareholder right 3. General meeting shareholder date 4. Results of General meeting shareholder
2.	Board of Comissioner	1. Name of Board of Comissioner member 2. Every member status (whether independence Comissioner or no). 3. Education and Carrier Board of Comissioner background 4. Tasks and responsibilities Board of Comissioner explanation 5. Policies and total remuneration Board of Comissioner 6. Mechanisms and criteria for self-assessment of the performance of each member of the Board of Commissioners. 7. The board meeting in terms of frequency and attendance 8. Amount of meeting attendance every Board of Comissioner member In meeting 9. Decision maker mechanism 10. Board of Comissioner training program
3.	Board Directors	1.Name and function of Board Directors Member 2. The role and responsibilities of Board directors 3. Board directors Education and Carrier background 4. Board directors job scope and responsibilities Authority Mechanism 5.The mechanism of delegation of authority. 6.Board directors Policies and total remuneration 7.Board directors meeting frequents 8.Every member Board directors Attendance meeting 9.Board directors Performance assessment 10.Training programs in order to improve the competence of the Board of Directors.
4.	Audit Committee	1.Name and function of Audit Committee Member 2.Brief biography of each member of the Audit Committee member. 3.Descriptions of duties responsibilities of Audit Committee 4.Attendance of each member at the meeting 5.The number of meetings was held by the Audit Committee 6.Brief report of Audit Committee activities 7.Independence of the members of the Audit Committee. 8.The existence of Audit Committee Charter
5.	Nomination/Governance and Remuneration Committee	1. Name and function of Nomination/Governance and Remuneration Committe member. 2. Short curriculum vitae every Nomination/Governance and Remuneration Committe member. 3. The role and responsibilities of Nomination/Governance and Remuneration Committe 4. Amount of Nomination/Governance and Remuneration Committe meeting 5. Every member Nomination/Governance and Remuneration Committe Attendance meeting 6. Short report of Nomination/Governance and Remuneration Committe activities 7. Independence of Nomination/Governance and Remuneration Committee member
6.	Risk Management Committee	1. Name and function of Risk Management Committee member 2. Short curriculum vitae every Risk Management Committee member 3. The role and responsibilities of Risk Management Committee 8. Amount of Risk Management Committee meeting 9. Every member of Risk Management Committee Attendance meeting 4. Short report of Risk Management Committee activities 5. Independence of Risk Management Committee member
7.	Corporate Governance Committe	1. Name and function of Corporate Governance Committee member. 2. Short curriculum vitae every Corporate Governance Committee member. 3. The role and responsibilities of Corporate Governance Committee 4. Amount of Risk Management Committee meeting

		5. Every member of Corporate Governance Committe Attendance meeting 6. Short report of Corporate Governance Committe activities 7. Independence of Corporate Governance Committe
8.	Others Company committees	1.Name and function of Committee member. 2.Short curriculum vitae every Committee member. 3.The role and responsibilities of Committee 4.Amount of Committee meeting 5.Every member of Committee Attendance meeting 6.Short report of Committee activities 7.Independence of Committee
9.	Corporate Secretary	1. Corporate Secretary name 2. Short curriculum vitae Corporate Secretary 3. The role and responsibilities of Corporate Secretary.
10.	Monitoring and Internal Control	1. The existence of Internal Control Information 2. The amount member of Internal control 3. Every Internal Control function member 4. The role and responsibilities of Internal control 5. Internal control activities report in one year 6. The Internal control company explanation
11.	Risk Management Corporate	1. Penjelasan mengenai risiko-risiko yang dihadapi oleh perusahaan. 2. Upaya untuk mengelola risiko-risiko tersebut.
12.	Important Issue was faced by company, Board directors and other board of commissioner member	1. Main case / claim 2. Case / claim position 3. Status case / claim completion 4. The influence case / claim to company finance condition
13.	Information Access and Company Data	1. The availability of Information and data company access 2. Information distribution list to public
14.	Corporate Ethic	1. Statement of company cultures
15.	Corporate Governance Statement Applied	1. The existence of corporate governance principals 2. The existence of corporate governance implementation guidance in company 3. Compliance with corporate governance guidelines 4. Corporate governance structure. 5. Corporate governance implementation result in one year. Corporate governance examination by external auditor.
16.	Others Important Issue which Related to Corporate Governance Applied	1. The company's vision 2. The mission of the company 3. The company's values 4. Stock ownership by members of the Board of Commissioners and the Board of Directors and their family members in the company and other companies. 5. Description of the compliance with the rules and regulations of capital markets. 6. A description of the transactions with parties who have a conflict of interest. 7. The description of the company's business ethics

Source :
1. Rule of BAPEPAM-LK Chief No. KEP-134/BL/2006
2. *Corporate Governance Guidance* (KNKG, 2006)