

# INFLUENCING FACTORS OF CORPORATE RISK DISCLOSURE LEVEL ON BANKING INDUSTRY IN INDONESIA

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## Abstract

*This research wants to examine the effects of Bank Size (CSIZE), Profitability (PROFIT), Public Shares Ownership (ISSUE), Total Number of the Board of Commissioner (BSIZE), Total Meeting of the Board of Commissioner (RPTDEKOM), and Member of Commissioner with background from Banking Supervisory Institution (BIDEKOM) to Corporate Risk Disclosure (CRD). This research analysis method using multiple linear regression analysis models. The result of this research shows that the data has fulfilled the classical assumption, such as: there is no multicollinearity and heteroscedasticity also data has distributed normally. From the regression analysis, found that partially Bank Size, Profitability and Member of Commissioner with Background from Banking Supervisory Institution variable, are significant to Corporate Risk Disclosure, while Public Share Ownership, Total Number of the Board of Commissioner and Total Meeting of the Board of Commissioner are not significant to Corporate Risk Disclosure.*

## Keywords

Banking; Disclosure; Risk; Governance; Indonesia.

## JEL Classification

M19

## Introduction

Corporate Risk Disclosure (CRD) is an important concern for public, especially investors. It is understandable considering the significance of the information for investors as one of the tools for a careful and precise investment decision. Therefore, corporate risk disclosure should be done in a balanced way, meaning that not only the disclosure of positive information but also negative information especially those related to the company's risk aspect.

In fact, the practice of information disclosure in banking industry in Indonesia is not quite satisfactory. It is evidenced by World Bank's research in 2006 entitled "Bank Disclosure Index: Global Assessment of Bank Disclosure Practices". This study was conducted by computing index composite of banking disclosure in 180 countries since 1994. In this study, measurement was made on disclosure of banking information including assets, liabilities, funding, incomes and risk profiles.

Based on the research, Indonesia's position is ranked 55th out of 177 countries observed by the World Bank. This position is far behind the other Asian countries such as Hong Kong which ranked number 1, Bahrain in 6<sup>th</sup>, Qatar in 8<sup>th</sup>, Japan in 12<sup>th</sup>, UAE in 18<sup>th</sup> and India in 32<sup>th</sup> position. Even in Southeast Asian, Indonesia lags behind Thailand which is positioned 29<sup>th</sup>, then Malaysia in 44<sup>th</sup>, followed by Singapore in 45<sup>th</sup> and Philippines in 48<sup>th</sup>. Compare to Southeast Asia countries, Indonesia is only better than Cambodia, Vietnam, Brunei Darussalam and Laos.

The results of the research encourage the research on risk disclosure of banks in Indonesia, besides another fact that bank in carrying out its operational activities is more vulnerable to risk compare to other companies. Based on the research background and results of some previous researches, the most appropriate title for this study is: **“Influencing Factors of Corporate Risk Disclosure Rate on Banking Industry in Indonesia”**.

Referring to the aforementioned background, the objectives of this research are as the following:

1. Analysing the effect of bank size, profitability, number of public shareholding, number of commissioners, number of commissioners board meeting, number of commissioner board members with retiree status of the banking supervisor authority, against the level corporate risk disclosure (CRD) in Indonesian Banking industry.
2. Analysing the effect bank size, profitability, number of public shareholding, number of commissioners, number of commissioners board meeting, number of commissioner board members with retiree status of the banking supervisor authority, against the level corporate risk disclosure (CRD) in Indonesian Banking industry simultaneously.

This research is expected to be useful for stakeholders to help them obtaining the necessary information to understand risk profile and risk management. It is also attributed for company to be used as bank management reference, in this case the board of directors and senior management, in compiling annual report transparently which include any bank activities to parties related to the company/stakeholders. Furthermore, for Bank Indonesia or the Financial Services Authority (OJK), the results of this study is expected to be used as a consideration in formulating regulations in order to improve the effectiveness of company management in presenting annual report as a form of risk disclosure and ensuring stakeholders being accurately informed by company risk.

## **Theoretical Analysis**

### **1) Good Corporate Governance Theory**

Good Corporate Governance (GCG) was first introduced in 1992. At that time, Cadbury Committee in United Kingdom published a report entitled "The Financial Aspects of Corporate Governance" or better known as Cadbury Report. Since then, Cadbury Report has become the basis for the implementation of Good Corporate Governance Company in United Kingdom even to various other countries.

Corporate Governance is defined by Sir Adrian Cadbury (Mallin 2004, 3) as: “the whole system of controls, both financial and otherwise, by which a company is directed and controlled.” While the OECD in 1999 defines it as:

“a set of relationships between a company’s board, its shareholders and other stakeholders. It also provides the structure through which the objectives of the company are set, and the means of attaining those objectives, and monitoring performance are determined.”

Daniri (2014, 21) defines GCG as a pattern of relationships (structure), system and processes that direct the company's organs (Board of Directors, Board of Commissioners and General Meeting of Shareholders (GMS)) that provide added value to the company on an ongoing basis, with due regard the interests of the stakeholders, based on prevailing laws and regulations.

### **2) Risk Disclosure Theory**

Disclosure is the dissemination of material information to public in which the contents of an evaluation of the business activities of a company, in this case is bank.

According to Idroes (2011, 234) Pillar 3 Basel II sets out the disclosure requirement that enable market participants to assess key information on risk coverage, capital, risk exposure, risk measurement process and bank capital adequacy.

Risk disclosure is important because it helps stakeholders in getting the information needed to understand the risk profile and risk management. Risk disclosure is also useful for risk monitoring and detecting potential problems to encourage early action to prevent it (Linsley and Shrivs 2006, 388).

There have been several studies on corporate risk disclosure. “The Extend of Disclosure in Annual Reports of Banking Companies: The Case of India” (Hossain 2008) shows that bank size, profitability, composition of commissioner board and market discipline significantly influence the level of disclosure. Results of this study is in line with research by Elzahar and Hussainey (2012), “Determinants of Narrative Risk Disclosures in UK Interim Reports”. The results of this study show that firm size and industry type influence the level of disclosure. In accordance with the results of these studies, researches by Juhmani (2013), Abdallah and Hassan (2014), Al-Shammari (2014) and Linsley and Shrivs (2006) show that firm size significantly influences the level of disclosure.

The uniqueness of this study compare with previous studies is the addition of variable: commissioner board members with retiree status of the banking supervisor authority to replace leverage variable. Variable replacement is conducted because although leverage positively affects corporate risk disclosure, operational definition of leverage variable is less appropriate to be implemented in banking industry. Liabilities in bank balance are mostly third-party fund (savings) as bank obligation/debt.

Based on the above consideration, this study measures the influences of bank size, profitability, number of public shareholdings, number of commissioner board members, number of commissioner board meeting and commissioner board members with retiree status of banking supervisor authority.

The developed hypotheses are the following:

- H1: Bank Size significantly and positively influences the level of risk disclosure in Indonesian Banking industry.
- H2: Company Profitability significantly and positively influences the level of risk disclosure in Indonesian Banking industry.
- H3: Public shareholding significantly and positively influences the level of risk disclosure in Indonesian Banking industry.
- H4: Number of commissioner board member significantly and positively influence the level of risk disclosure in Indonesian Banking industry.
- H5: Number of commissioner board meeting significantly and positively influence the level of risk disclosure in Indonesian Banking industry.
- H6: Commissioner board members with retiree status of banking supervisor authority significantly influence the level of risk disclosure in Indonesian Banking industry.
- H7: Company size, profitability, public shareholdings, number of commissioner board member, number of commissioner board meeting and Commissioner board members with retiree status of banking supervisor authority, simultaneously affects the level of risk disclosure in Indonesian Banking industry.

## **Research Method**

Population of the current study includes all conventional commercial banks in Indonesia enlisted by Bank Indonesia and Indonesia Stock Exchange that have go public (open) and have issued Annual Report in 2012 and 2013. The number of commercial banks in Indonesia registered in Bank Indonesia until December 2014

was 120 Bank, consisting of 109 conventional commercial banks and 11 sharia banks. Among the 109 conventional commercial banks, 39 of them have go public and are listed on Indonesia Stock Exchange

**Table 1 Banks Enlisted as Research Object**

<b>No</b>	<b>Information</b>	<b>Research Object</b>
1	<i>Go Public Banks in Indonesia</i>	39
2	<i>Go Public Sharia Banks in Indonesia</i>	(1)
		<b>38</b>
3	<i>Conventional IPO bank after 2013</i>	(3)
		<b>35</b>
4	<i>Banks enlisted in IDX but suspended in 2012 and 2013</i>	(1)
	<b>Total</b>	<b>34</b>

Source: Processed data from various sources (www.idx.co.id)

The analysis model used in this research is multiple linear regression analysis model. This model is intended to test the extent and how the direction of independent variables affects the dependent variable. Multiple regression equation for testing hypothesis in this research is:

$$RDS = \alpha + \beta_1 CSIZE + \beta_2 PROFIT + \beta_3 ISSUE + \beta_4 BSIZE + \beta_5 RPTDEKOM + \beta_6 BIDEKOM$$

Where:

- RDS : Risk Disclosure Score
- CSIZE : Bank Size (Total Asset)
- PROFIT : Profitability
- ISSUE : Number of Public Share
- BSIZE : Number of Commissioner Board Member
- RPTDEKOM : Number of Commissioner Board Meeting
- BIDEKOM : Commissioner board members with retiree status of banking supervisor authority
- A : Constanta
- $\beta_1, \beta_2, \beta_3, \beta_4, \beta_5, \beta_6$  : Regression Coefficient

**Table 2 Banks Chosen as Research Object**

<b>No.</b>	<b>Bank Name</b>	<b>Code</b>	<b>Listing Year</b>
1	Pan Indonesia Bank, Tbk	PNBN	1982
2	Bank Danamon Indonesia, Tbk	BDMN	1989
3	Bank CIMB Niaga, Tbk	BNGA	1989
4	Bank Internasional Indonesia, Tbk	BNII	1989
5	Bank Permata Tbk	BNLI	1990
6	Bank Artha Graha Internasional, Tbk	INPC	1990
7	Bank OCBC NISP, Tbk	NISP	1994
8	Bank Negara Indonesia (Persero), Tbk	BBNI	1996
9	Bank Mayapada Internasional, Tbk	MAYA	1997
10	Bank Victoria Internasional, Tbk	BVIC	1999
11	Bank Bumi Arta Tbk	BNBA	1999
12	Bank Central Asia , Tbk	BBCA	2000
13	Bank Mega, Tbk	MEGA	2000
14	Bank Nusantara Parahyangan, Tbk	BBNP	2001
15	Bank Pundi Indonesia, Tbk	BEKS	2001
16	Bank QNB Kesawan, Tbk	BKSW	2002
17	Bank ICB Bumiputera Indonesia, Tbk	BABP	2002
18	Bank of India Indonesia, Tbk	BSWD	2002
19	Bank Rakyat Indonesia (Persero), Tbk	BBRI	2003
20	Bank Mandiri (Persero), Tbk	BMRI	2003
21	Bank Rakyat Indonesia Agroniaga, Tbk	AGRO	2003
22	Bank Bukopin, Tbk	BBKP	2006
23	Bank Himpunan Saudara 1906, Tbk	SDRA	2006
24	Bank Windu Kentjana Internasional, Tbk.	MCOR	2007
25	Bank Capital Indonesia Tbk	BACA	2007
26	Bank Tabungan Pensiunan Nasional, Tbk	BTPN	2008
27	Bank Ekonomi Raharja. Tbk	BAEK	2008
28	Bank Tabungan Negara (Persero), Tbk	BBTN	2009
29	Bank Jabar Banten Tbk	BJBR	2010
30	Bank Sinarmas, Tbk	BSIM	2010
31	BPD Jatim Tbk	BJTM	2012
32	Bank National Nobu Tbk	NOBU	2013
33	Bank Mestika Dharma Tbk	BBMD	2013
34	Bank Mitraniaga Tbk	NAGA	2013

Source: <http://idx.co.id>

## Result and Analysis

**Table 3 Descriptive Analysis**

Statistics Descriptive

	N	Min.	Max.	Mean	Std. Deviation
ASSET	68	1048.15	733099.76	105400.2	170083.31358
ROA	68	-.01	.05	.0219	.01340
SHARE	68	.00	.51	.2261	.16017
COMMISSIONER	68	2.00	9.00	4.9853	1.80788
MEETING	67	4.00	79.00	17.7761	16.96326
BI	68	.00	1.00	.2353	.42734
RDS	68	23.53	100.00	80.7957	17.88342
Valid N (listwise)	67				

Based on the calculation in Table 3, the minimum value of size bank variable is 1048.15 and the maximum value is 733099,766 with average value of 105400,2 and standard deviation of 170083,313. Minimum value for profitability variable is -0.01 and the maximum value is 0.05 with average value of 0.02 and standard deviation of 0.013. Minimum value for public share ownership variable is 0.00 and the maximum value is 0.51 with average value 0.22 and standard deviation of 0.160. Minimum value for number of commissioner board member is 2 and the maximum value is 9 with average value of 4.98 with standard deviation of 1.807. Minimum value for number of commissioner board meeting variable is 4 and the maximum value is 79 with average value of 17.77 and standard deviation of 16.963. Minimum value for Commissioner board members with retiree status of banking supervisor authority variable is 0.00 and maximum value of 1 and its average value of 0.23 with a standard deviation of 0.427. The minimum value for Risk Disclosure Score (RDS) variable is 23.53 and the maximum value is 100 with average value of 80,79 and standard deviation of 17,883.

**Table 4 Research Result**

Coefficients<sup>a</sup>

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	72.799	7.002		10.397	.000
	ASSET	3.37E-005	.000	.339	2.164	.034
	ROA	-384.614	166.087	-.292	-2.316	.024
	SAHAM	18.629	13.214	.176	1.410	.164
	KOMISARIS	1.438	1.256	.154	1.145	.257
	RAPAT	.241	.135	.241	1.783	.080
	BI	-9.989	4.625	-.253	-2.160	.035

a. Dependent Variable: RDS

Based on the details in Table 4, the following results are obtained:

1. Bank Size variable (CSIZE) obtained t count value of 2.164. Since t count (2,164) > t table (1.99), then Ho is rejected. Therefore, it can be concluded that Size Bank (CSIZE) partially has significant influence on Level of Corporate Risk Disclosure.
2. Profitability variable (PROFIT) obtained t count value of 2.316. Since t count (2,316) > t table (1.99) then Ho is rejected. Therefore, it can be concluded that

Profitability (PROFIT) partially has a significant influence on Level of Corporate Risk Disclosure.

3. Number of Share Ownership variable (ISSUE) obtained t value of 1.410. Since t count (1,410) < t table (1,99) then Ho is accepted. Therefore, it can be concluded that Number of Share Ownership (ISSUE) partially has no significant effect to Level of Corporate Risk Disclosure.
4. Number of Commissioner Members variable (BSIZE) obtained t value of 1.145. Since t count (1.145) < t table (1.99) then Ho is accepted. Therefore, it can be concluded that Number of Commissioner Members (BSIZE) partially has no significant influence Level of Corporate Risk Disclosure.
5. Number of Commissioner Board Meeting variable (RPTDEKOM) obtained t value of 1, 783. Since t count (1.783) < t table (1.99) then Ho is accepted. Therefore, it can be concluded that Number of Commissioner Board Meeting (RPTDEKOM) partially has no significant effect to Level of Corporate Risk Disclosure.
6. Commissioner board members with retiree status of banking supervisor authority variable (BIDEKOM) obtained value of t count of 2,159. Since t count (2.159) > t table (1.99) then Ho is rejected. Therefore, it can be concluded that Commissioner Background (BIDEKOM) partially has a significant influence on Level of Corporate Risk Disclosure.

**Table 5 Determination Coefficient**

**Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.592 <sup>a</sup>	.350	.285	14.36461

a. Predictors: (Constant), BI, ROA, SAHAM, KOMISARIS, RAPAT, ASSET

Based on the output of SPSS software above, obtained the value of correlation coefficient (R) of 0,592. The adjusted determination coefficient of 28.5% indicates that contribution of bank size, profitability, number of public shareholdings, number of commissioner board members, number of commissioner board meetings and commissioner member with retiree status of banking supervisor authority against level of Corporate Risk Disclosure is 28.5%, while the rest 71,5% is the contribution of other variable.

The discussion of research result is described as follows:

**1. Influence of bank size to risk disclosure level.**

The first hypothesis proposed in this study is that bank size has significant and positive influence on the level of risk disclosure in Indonesian banking industry. This study obtained regression coefficient value for firm size variable of  $3,37 \times 10^{-05}$  with significance value of 0,034, where this value is significant at 0.05 significance level because it is smaller than 0.05. Thus, the first hypothesis that bank size has significant and positive influence on the level of risk disclosure can be accepted.

This result is in accordance with research by Linsley and Shrivs (2006), Hossain (2008), Elzahar and Hussainey (2012), Juhmani (2013), Abdallah and Hasan (2014), and Al-Shammari (2014) which state that firm size influences risk disclosure level.

## **2. Influence of profitability to risk disclosure level.**

The second hypothesis proposed in this study is that profitability has significant and positive influence to the of risk disclosure level in Indonesian bank industry. This study obtained regression coefficient value for corporate profitability variable of -384.6 with significance value of 0.024, this value is significant at 0.05 significance level because it is smaller than 0.05.

Based on existing empirical data and from the results obtained, this study shows that the fluctuation of corporate profitability affect the risk disclosure level. This study shows that bank conventional with Tbk (Go Public) status and high profitability have high level of risk disclosure. This result is in accordance with research by Hossain (2008) and Al-Moataz and Hussainey (2012) which state that company profitability variable influences risk disclosure level.

## **3. Influence of public shareholding to risk disclosure level.**

The third hypothesis proposed in this study is that the amount of public share ownership has significant and positive influence to risk disclosure level in Indonesian Banking industry. This study obtained regression coefficient value for public shareholder variable of 18,629 with significance value of 0.164, where this value is insignificant at 0.05 significance level because it is greater than 0.05. Thus the third hypothesis that public shareholding significantly influences risk disclosure level is not acceptable.

This finding is not in line with the results of research by Horing and Grundl (2011) which states that cross-listing and proprietary dissemination are associated with risk disclosure level.

## **4. Influence of number of commissioner board members to risk disclosure level.**

The fourth hypothesis proposed in this study is that number of commissioner board members has significant and positive influence on risk disclosure level. This study obtained regression coefficient value for number of commissioner board members variable is 1.438 with significance value of 0.257, where this value is insignificant at 0.05 significance level because it is greater than 0.05. Thus the fourth hypothesis which states that number of commissioner board members has significant influence on the level of risk disclosure is not acceptable.

This finding is not in line with the results of research by Suhardjanto et al. (2012), Amran et al. (2010), Al-Janadi (2013), Al-Shammari (2014) and Akhtaruddin et al (2014). However, it is in accordance with the results of Elzahar and Hussainey (2012) which states that number of commissioner board members has no effect to risk disclosure level.

## **5. Influence of number of commissioner board meeting to risk disclosure level.**

The fifth hypothesis proposed in this study is that the number of commissioner board meeting has significant and positive influence on disclosure risk level. This study obtained regression coefficient value for number of commissioner board meeting variable of 0.241 with a significance value of 0.080, where this value is insignificant at 0.05 significance level because it is greater than 0.05. Therefore, the fifth hypothesis which states that the number of commissioner board meeting variable significantly influence risk disclosure level cannot be accepted.

This finding is not in accordance with results of research by Suhardjanto and Dewi (2011) and Suhardjanto et al (2012) which state that the number of commissioner board meeting influences risk disclosure level.



**6. Influence of commissioner member with retiree status of banking supervisor authority to risk disclosure level.**

The sixth hypothesis proposed in this study is that commissioner member with retiree status of banking supervisor authority influences risk disclosure level. This study obtained regression coefficient value for commissioner member with retiree status of banking supervisor authority variable at -9.989 with significance value of 0.035, where this value is significant at 0.05 significance level because it is less than 0.05. Thus the sixth hypothesis which states that the existence of commissioner member with retiree status of banking supervisor authority influence risk disclosure level is inferred to have a significant effect.

**7. Influence of all independent variables on risk disclosure level simultaneously.**

The seventh hypothesis proposed in this study is that bank size, profitability, number of public shareholdings, number of commissioner board members, number of commissioner board meeting, and commissioner member with retiree status of banking supervisor authority are simultaneously affect the level of corporate risk disclosure (CRD) in Indonesian Banking industry.

This study obtained F count value of 5.384. Then since F count value (5,384) > F table (2.25) and the significance value is 0.000 < 0.05, it can be concluded there is a significant influence between bank size, profitability, number of public shareholdings, number of commissioner board members, number of commissioner board meeting, and commissioner member with retiree status of banking supervisor authority to corporate risk disclosure level (CRD) simultaneously. Thus, independent variables in conventional banking with Tbk (Go Public) status in this study mutually influence each other on risk disclosure level.

**Conclusion and Implication**

Here are some conclusions that can be drawn from this research:

1. Among the six independent variables: between bank size, profitability, number of public shareholdings, number of commissioner board members, number of commissioner board meeting, and commissioner member with retiree status of banking supervisor authority, there are three variables with significant influence on level of corporate risk disclosure (CRD) in banking industry.
  - a. Bank size, which in this study inferred from conventional banks with Tbk (Go Public) status. Greater the total assets owned, the better risk disclosure level score to the public. This is due to the obligation that bank should not only showing its performance to the public but also presenting risk management ability.
  - b. Profitability in this study indicates a significant influence on risk disclosure level. Based on the existing empirical data and results obtained, the fluctuation of company profitability influence the level of risk disclosure.
  - c. Commissioner with retiree status of banking supervisor authority is new independent variable that did not exist in previous studies. The result of this study shows that commissioner with retiree status of banking supervisor authority has a significant influence to risk disclosure level of a bank.
2. From the result of t test by considering the value of significance, it can be concluded that the most significant variable to corporate risk disclosure (CRD) level is profitability with t significance value of 0.024. While the independent variable with the least effect on corporate risk disclosure (CRD) level is the number of commissioner board member with significance value of 0.257. From the result of F test, it is proved that the significance value of F is 0,000 smaller

than pre-determined significance value of 0.05. Thus all independent variables in this study simultaneously have a significant effect on corporate risk disclosure (CRD) level.

From the research result, it can be observed that the independent variables that significantly influence risk disclosure level are bank size, profitability and commissioner with retiree status of banking supervisor authority. Therefore, it is recommended for supervisor authority of banking and capital market to observe and scrutinize those three factors, considering their significant effects on risk disclosure level. It should be conducted to align that bank supervision and control policy.

For banking management, these three factors should be considered regarding the fact that great assets and profitability as well as the existence of commissioner with retiree status of banking supervisor authority have a significant effect on bank risk disclosure.

While the variables that do not affect risk disclosure level include share ownership, number of commissioner board members and number of commissioner board meeting. The number of those three variables has no significant effect on risk disclosure level. Nevertheless, these variables are still needed to be considered because these independent variables are simultaneously affecting each other to the level of risk disclosure.

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