Independent Commissioner Against Mandatory Disclosure of Financial Performance as a Moderating Variable

Review of Integrative Business & Economics Research

Rudi Zulfikar
Universitas Sebelas Maret

Nur May
Universitas Sultan Ageng Tirtayasa

Djoko Suhardjanto
Universitas Sebelas Maret

Sri Wahyu Agustiningsih*
Universitas Sebelas Maret

ABSTRACT

This research aimed to examine an independent commisioner against mandatory disclosure of financial performance as a moderating variable. The mandatory disclosure measure is based on Bank Indonesia's rule No.14 / 14 / PBI / 2012 on Bank Statement's Transparency and Publication, which was measured by the number of independent commissioner. It is divided into totally independent commissioners and financial performance as proxied by Return on Assets. The sample in this research includes 117 banking companies listed in Bank Indonesia during the years of 2013-2015. The statistical method used was Moderated Regression Analysis (MRA) with multiple linear analysis. Based on the statistical test, the results indicate that the independent commissioner negatively affects mandatory disclosure. The financial performance of independent commissioners strengthens such relationship.

Keywords: Mandatory Disclosure, Independent Commissioner, Financial Performance, Return on Assets, and Firm Size.

1. INTRODUCTION

This research aimed to examine the influence of Independent Commissioner on the Mandatory Disclosure with Financial Performance as the Moderating Variable using banking companies listed in Bank Indonesia during the years of 2013-2015. It is related to Belkaoui (2000) who stated that the mandatory disclosure was the main source of information for investors before making an investment decision.

According to FFGI (Fair Finance Guide International, 2010), there are 48 banks in seven countries which has a bad performance of transparency and accountability. One of them is Indonesia. Based on Indonesia's FFGI, there are four problems in the banking industry where it is considered as follow: 1) the lack of information transparency relates

Copyright © 2017 GMP Press and Printing (http://buscompress.com/journal-home.html)
ISSN: 2304-1013 (Online); 2304-1269 (CDROM); 2414-6722 (Print)

to bank customers and their deposits based on tax issues and corruption by taking refuge on the bank secrecy principle; 2) the bank does not transparent with interest rates, especially mortgage rates, which does not profitable to the community; 3) the low levels of bank compliance publish the bank report; and 4) the banks are less open about risk management policies and social environment (okezone.com, 2015).

In Indonesia, an implementation and mandatory disclosure is stipulated in the Bank Indonesia's rule No.14 / 14 / PBI / 2012 on Transparency and Publication Bank Report. So, the banking industry publishes the mandatory disclosure of companies which contains the information that can assist investors in making investment decision.

The mandatory disclosure should be presented in a timely, adequate, clear, accurate, comparable and easily accessible to stakeholders in accordance with their rights (Daniri, 2005). To produce clear and accurate information, it is needed to improve the transparency of financial information quality (Brown *et al.* 2008). So, the quality of information reflects the implementation of Corporate Governance (Khomsiyah, 2005). The Corporate Governance (CG) is a system to regulate and control the industry, which creates value added to all stakeholders (Monks, 2003). The CG mechanism is needed to align the interests of managers and shareholders because of an interest conflict. The CG in this research will be proxied on Independent Commissioner. It was chosen because it has a duty to supervise and control the industry directly. So, it can minimize the agency cost which may result from interest differences (El-Charaani, 2014). The Independent Commissioners have stipulated in Bank Indonesia's rule No.8/ 4 / PBI / 2006 on the Implementation of Corporate Governance and Act-305 / BEJ / 07-2004 that companies listed on the stock exchange have Independent Commissioner at least 30% of the Commissioners' member number.

There are several studies on proven by research of Tang *et al.* (2013) and Barani *et al.* (2013) who indicated that the Independent Commissioner influences the mandatory disclosure. On the other hand, the research of Ho and Wong (2001) who indicated that the Independent Commissioner does not affect the mandatory disclosure. In Indonesia, the research of Suhardjanto and Choiriah (2010) showed that the Independent Commissioner influences positively the mandatory disclosure. The research of Suhardjanto and Kharis (2012) is different from the previous one which showed that the Independent Commissioner does not affect the mandatory disclosure. In the line with this

Copyright © 2017 GMP Press and Printing (http://buscompress.com/journal-home.html)
ISSN: 2304-1013 (Online); 2304-1269 (CDROM); 2414-6722 (Print)

research, Khomsiyah (2005) showed that there is no influence between the Independent Commissioner against disclosure. Based on the differences research result, the researchers suspected that there are other variables may moderate the relation between the Independent Commissioner against the Mandatory Disclosure that the variable is Financial Performance.

The Financial Performance Testing as a moderating variable is based on the financial performance information used by stakeholders to see how far the industry's financial performance goals have been achieved (Meigs, *et al*.1978). The companies with financial performance will influence the level of information disclosure quality (Takhtaei *et al.* 2014). Furthermore, the improvement of financial performance reflects the Independent Commissioner's function as media control in an industry to become more optimal. It is related to Stiles and Taylor (2001) who said that the optimization is carried out through the transparency in disclosing mandatory to be better.

Based on the explanation above, there are two problems which can be identified as follow:

1. Is there any influences of an Independent Commissioner against Mandatory Disclosure?
2. Is there any influences of Independent Commissioner against Mandatory Disclosure which moderated by Financial Performance?

2. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Agency Theory

According to Jensen and Meckling (1976), agency theory is a contractual relation between principal and agent to perform the activities by providing authority to the agent. The problems arise when the agent and principals have a different perception in terms of providing the information to provide incentives to the agent. So, it causes an information asymmetry. Because of the not conformity information, it makes the banking industry to moral hazard. The moral hazard is a form of incentive that has a hidden agenda and action are contrary to business ethics and laws because of her advantage (Taswan, 2009). It is because the agent as a party that knows more about the condition of the industry must report all corporate information to the principal. One way to reduce the information asymmetry is mandatory disclosure.

Copyright © 2017 GMP Press and Printing (http://buscompress.com/journal-home.html)
ISSN: 2304-1013 (Online); 2304-1269 (CDROM); 2414-6722 (Print)

Influence of Independent Commissioner against Mandatory Disclosure

The agency theory predicted that by adopting the internal control measures consisting of Independent Commissioner and audit committee is expected to improve the quality and completeness of disclosure (Khomsiyah, 2005). It is also supported by Apostolou and Nanopoulus (2009) who said that the Independent Commissioner can ensure the transparency, healthy structure and rational decision making.

The Independent Commissioner is a commissioner who does not have the relation of financial, management, shareholding, and family relation to other commissioners, directors, controlling shareholders and other relation which could affect its ability to act independently. The Independent Commissioner can act as a mediator in disputes between internal managers, supervise and advises the policies of the board of directors (El-Charaani, 2014). It is related to (Fokker, 1992) who said that the higher proportion of Independent Commissioners will increase corporate disclosure. Besides that, the research of Tanget et al. (2013) said that Independent Commissioners positively influence on mandatory disclosure.

The research of Barani *et al.* (2013) and Chen and Jaggi (2008) stated that the Independent Commissioner positively influence on the disclosure level. Meanwhile, in contrast to the research of Ho and Wong (2001) and Suhardjanto and Kharis (2012), they said that the Independent Commissioner negatively influence on mandatory disclosure. The hypothesis was:

H1: Independent Commissioners positively influenced on Mandatory Disclosure

Influence of Independent Commissioner against Mandatory Disclosure which Moderated by the Financial Performance.

According to Tandelilin (2001), one important indicator for investors in assessing the prospects of the industry is to look at the extent to which an industry's profitability. The companies with a high profitability will motivate management to provide greater information as to boost investor confidence (Samir, M *et al.*, 2003). To increase the confidence of investors, the industry's information should be transparent and accurate through mandatory disclosure. Because the mandatory disclosure is the minimum resources that must be disclosed in the industries report (Wallace *et al.*, 1995). So, to generate the resources in a transparent mandatory disclosure is needed to function

Copyright © 2017 GMP Press and Printing (http://buscompress.com/journal-home.html)
ISSN: 2304-1013 (Online); 2304-1269 (CDROM); 2414-6722 (Print)

Independent Commissioner to supervise and control the financial performance. In brief, the companies with a high proportion of Independent Commissioners tend to disclose more complete reocords in a mandatory disclosure which include financial performance information. It is also supported by Oliviera *et al.* (2011) who said that the broader level of disclosure reflects more optimal function Independent Commissioner. It is also strengthened by the research of Sumon *et al.* (2014) and Takhatei *et al.* (2014) who found a positive relation between ROA with mandatory disclosure. The hypothesis was:

H1: Financial Performance strengthened the influence of Independent Commissioner against Mandatory Disclosure.

3. METHODOLOGY

The population in this research was all banks listed in Bank Indonesia. While the sample in this research, it was banking companies listed in Bank Indonesia during the years of 2013-2015. The selection's reason of banking sector in this research is because the banking industry prone to moral hazard. The selection's reason in the years of 2013-2015 was based on Bank Indonesia rule No.14 / 14 / PBI / 2012 on Transparency and Publication Bank Report.

Sampling was done by a purposive sampling method that aimed to obtain a representative sample in accordance with the specified criteria. The criteria are:

1. Bank, which become the sample was registered in the Commercial Bank of Bank Indonesia (BI)
2. Still in operation until 2015
3. Banking industry, published the annual reports for the period of 2013-2015 in the Bank Indonesia's website.

Independent Variables

According to Suhardjanto and Kharis, the Independent Commissioner size was calculated by presenting it to the total number of Independent Commissioners towards Commissioners' member.

Independent Commissioners' Proportion =

$$\frac{\text{Number of Independent Commissioner}}{\text{Total of Commissioners'member}} \text{ x } 100\%$$

Dependent Variables

The level of companies' compliance with financial reporting regulations indicated in the index mandatory disclosures in the annual report of the index mandatory disclosure determination required by arranging a checklist which is described further in

Copyright © 2017 GMP Press and Printing (http://buscompress.com/journal-home.html)
ISSN: 2304-1013 (Online); 2304-1269 (CDROM); 2414-6722 (Print)

the preparation of research instruments. This index mandatory disclosure determination followed the same way with Khomsiyah (2005), but differ in terms of references used.

One of the basis used by Khomsiyah (2005) was a Circular Letter of Bapepam No.SE-02 / PM / 2002, whereas this research based on Bank Indonesia rule No.14 / 14 / PBI / 2012 on Transparency and Publication Bank Report. The index mandatory disclosure determination was done by classifying items of information disclosure as follows: 1) the information presented in the annual report; 2) the information was not presented in the annual report; and 3) the information was Not Applicable (NA) for the industry. The companies that revealing piece of mandatory information will be given a score of "1", while a score of "0" for companies who did not reveal. The items listed on the compulsory disclosure indices were calculated by the formula (Baridwan, et al., 2001):

$$\text{Disclosure Index} = \frac{\text{The amount of information presented in the annual report}}{\text{The maximum amount of disclosure - information NA}}$$

Moderating Variables

The financial performance variables were measured by financial Ration on Assets (ROA). The ROA was a ratio that measured the comapnie’s performance seen from the industry's revenue in relation to all of these resources at the disposal (in stockholders' equity plus short and long-term funds borrowed).

The ROA formulation was based on the Circular Letter of Bank Indonesia No. 3/ 30 / DPNP Attachment 14:

$$\text{Re}turn\ On\ Assets\ (ROA) = \frac{\text{Profit before tax}}{\text{Total mean assets}}$$

Controlling Variable

Firm Size

The firm size was the scale that classified the size of company total assets (Damayanti and Sudarma 2007). The companies with total assets of large reflected the reliability of the industry or bank.

The formula which can be used to calculate the value firm size by Kartika (2009) consisted of:

Copyright © 2017 GMP Press and Printing (http://buscompress.com/journal-home.html)
ISSN: 2304-1013 (Online); 2304-1269 (CDROM); 2414-6722 (Print)

Firm Size = Ln Total Asset

Data Analysis Method

This research used multiple regression analysis that used to measure the relation between two or more variables and show the direction of the relation between the dependent and independent variables (Ghozali, 2011: 96). According to Ghozali (2011), the classic assumption test consisted of: (1) normality test; (2) multi linearity test; (3) heteroscedasticity test; and (4) auto correlation test. The regression equation as follows:

$$MD = \alpha + \beta 1\ IC + \beta 2\ FP + \beta 3\ IC^{*}\ FP + \beta 4\ \ Size + \epsilon$$

4. RESULTS AND DISCUSSION

Descriptive Analysis

The descriptive statistics' result of research variables were shown in Table 2.

Table 2 Descriptive Statistics

Variabel	Minimum	Maksimum	Mean	Std. Dev
MD	0,89	0,98	0,92	0,025
IC	0	1	0,57	0,19
FP	0,01	5,99	2,07	1,37
Size	8,84	29,59	17,38	3,42

Variabel Description:

MD : Mandatory Disclosure
IC : Independnet Commisioner
FP: Financial Performance
ROA: Return on Asset
Size: Total Asset

The results in Table 2 showed that the mean of mandatory disclosure variables was 0.9203. It indicated that the average banking industry, which conducted mandatory disclosure was better. Although, it had not yet reached the mandatory disclosure of the maximum value of 100 %.

The mean value for an Independent Commissioner had a value of 0.57 or 57%. It meant that the designation of Independent Commissioner in Indonesia had been followed by the rules of BAPEPEM. The each industry was required to have Independent

Copyright © 2017 GMP Press and Printing (http://buscompress.com/journal-home.html)
ISSN: 2304-1013 (Online); 2304-1269 (CDROM); 2414-6722 (Print)

Commissioners at least 30% of the total members of the Commissioners' member in the industry.

The mean value for moderating variables that is financial performance had a mean of 2.077%. It showed that the greater ROA was disclosed in the annual report which showed that the better financial performance.

The mean value for the control variable was Size had a mean of 17.38%. It indicated that an industry has a large asset. So, it can support the industry's operations to be greater than the revenue that can be seen from the acquired companies.

Hypothesis Testing Results

The results of hypothesis testing used by statistical data processing program with multiple linear regression analysis were shown in Table 3.

Table 3. Regression Analysis

Variabel	**Koefisien Regresi**	***T-Test***	**Sig**
Constanta		0,009	0,000
IC	-0,063	0,012	0,000***)
FP	-0,004	0,003	0,099**)
Size	0,001	0,000	0,003**)
Moderating	0,010	0,004	0,032**)
Adjusted R Square	0,137		
F	19,576		
Sig	0,000		

***), **),*) : significance α = 1 %, 5 %, 10 % respectively

The coefficient of determination (Adjusted R-Square) in Table 3 was obtained about 13.7 percent. It meant that the variable in the Mandatory Disclosure variable of 13.7%. It can be explained by the Independent Commissioner variable with Size as controlling variables, while the remaining of 86.3%. It was explained by other variables not included in the model.

H1: Independent Commissioner positively influence on Mandatory Disclosure

Testing the hypothesis showed that Independent Commissioners negatively affect Mandatory Disclosure with a significance level of 0.000. It showed that significant negative effect on the Mandatory Disclosure. It meant that the research was rejected.

The results showed that Independent Commissioners negatively affect this mandatory disclosure. It meant that the role of the Independent Commissioner as CG mechanism has not been able to function as a mechanism for improving the quality of CG in relation Mandatory Disclosures. The results of this research were supported by the

Copyright © 2017 GMP Press and Printing (http://buscompress.com/journal-home.html)
ISSN: 2304-1013 (Online); 2304-1269 (CDROM); 2414-6722 (Print)

research conducted by Suharjanto and Kharis (2012), Khomsiyah (2005) and Cerbioni and Parbonetti (2007).

The results of this research indicated that the ineffective role of supervision and monitoring by an Independent Commissioner. According to Suharjanto and Kharis (2012), the designation of the Independent Commissioner for someone not based on competence and professionalism, but as an homage or tribute, or in other words an Independent Commissioner election in Indonesia was less expensive integrity and competence.

H2: Financial Performance strengthened the influence of the Independent Commissioner of the Mandatory Disclosure

Hypothesis testing results show that the variable Financial Performance as variables moderating the relationship between the Independent Commissioner of the Mandatory Disclosure obtained with a value of 2.159 with a significance level of 0.032. The results of this research revealed that the Financial Performance strengthen ties Independent Commissioner of the Mandatory Disclosure or in other words the second hypothesis in this research received.

The results showed that the financial performance strengthens the influence of the Independent Commissioner relation to mandatory disclosure of this means that the success of an industry in running its business can be measured by financial performance disclosed in the annual report of banking. The results of this research are supported by research Takhtaei et al. (2014) and Sumon, Das et al. (2014) showed a positive association between Financial Performance of the Mandatory Disclosure.

The results of this research indicated that, based on agency theory, the resources owned by the industry, which includes Independent Commissioner to maximize the performance agent through the function of oversight to the industry disclose corporate information in an annual report that includes includes information financial performance of banks as information for investors in decision investment decision. So the companies that generate profit that most likely do a broader disclosure.

5. CONCLUSION

Characteristics of the data which appeared through descriptive analysis showed an average of 92.5% indicates that the level of disclosure required in Indonesia that is

Copyright © 2017 GMP Press and Printing (http://buscompress.com/journal-home.html)
ISSN: 2304-1013 (Online); 2304-1269 (CDROM); 2414-6722 (Print)

getting better but has not been in accordance with BAPEPAM rules that require companies doing mandatory disclosure of 100%.

Based on the regression results obtained:

Independent Commissioner negatively influence Mandatory Disclosures. The results of this research support Suharjanto and Kharis (2012) and Khomsiyah (2005) which states that the role of the Independent Commissioner as corporate governance mechanisms and controls to monitor the performance of the industry. While the results showed that the financial performance reinforces the influence of an Independent Commissioner of the Mandatory Disclosure This shows that the industry's financial performance can optimize improve oversight function Independent Commissioner. Optimizing the function of independent directors conducted through transparency in the disclosure required the industry to implement Corporate Governance.

6. SUGGESTION

The practical implication of this research is for the Bank Indonesia as a regulator was expected to reviewing the criteria of independence of the board of commissioners. This research has a number of limitations that’s expected to be improved through similar studies in the future, namely:

1. Further research suggested adding other variables that may affect the mandatory disclosure as the Audit Committee, the Board of Directors, the rights of the shareholders and other variables that may affect the mandatory disclosure.
2. Banking firm in Bank Indonesia must disclose their company information in annual reports in complete form because the information is taking part in investor consideration on making an investment decision.

REFERENCES

[1] Al-Akra, Mahmoud, Ian A. Eddie, Muhammad Jahangir Ali. 2010. The influence of the introduction of accounting disclosure on mandatory disclosure regulation compliance: Evidence from Jordan, *The British Accounting Review*42 (2010) 170-186.

[2] Bank Indonesia Regulation No. 14/14 / PBI / 2012. Publications on Transparency and Bank Statements.

[3] Barani Zeinab, Mansoor Garkaz, Alireza Pakzad. 2013. Explanation of Relationship between Corporate Governance and Information Disclosure of Quoted Companies

Copyright © 2017 GMP Press and Printing (http://buscompress.com/journal-home.html)
ISSN: 2304-1013 (Online); 2304-1269 (CDROM); 2414-6722 (Print)

in Tehran Stock Exchange, the I*nternational Journal of Academic Research in Accounting, Finance and Management Sciences.*

[4] Bhasin, Madhan Lal. 2010. Disclosure of Corporate Governance Practices: The Portrait of a Developing Country, International Journal of Business and Management.

[5] Cety. T & Suhardjanto, D. 2010. Effect Governnace against Corporate Environmental Performance in Indonesia. Call for Papers. University March Surakarta.

[6] Chow, Chee W., and Adrian Wong-Boren, (1987), Voluntary Disclosure by Mexican Financial Corporation, The Accounting Review, 62, July, 533-541.

[7] Chowdhury, A and Mavrotas, G. 1987. FDI and Growth: What Causes What? The World Economy 29 (1), pp 9-19.

[8] Daniri Mas Ahmad, Good Corporate Governance: Concept and Implementation in Indonesia. Ray Indonesia, Jakarta, in 2005.

[9] Denis and Mc Connel. 2003. "International Corporate Governance", ECGI Working Paper Series in Finance, Finance Working Paper N 05/2003, http: // ssrn. Com / abstract_id = 320 121.

[10] El-Chaarani, Hani. 2014. The Impact of Corporate Governance on The Performance Of Lebanese Banks. Journal of Business and Financial Research. Vol. 8. No. 5.

[11] Ghozali, Imam. 2011. Applications Multivariate Analysis with IBM SPSS Program. Semarang: Diponegoro University Perbit Agency.

[12] http://economy.okezone.com/read/2015/06/11/457/1163744/48-bank-di-tujuh-negara-dapat-rapor-merah-transparansi, (Accessed on 28 February 2016).

[13] Kartika, A. 2009. Factors Affecting Audit Delay in Indonesia (Empirical Research On Enterprises LQ 45 Listed on the Jakarta Stock Exchange). Journal of Business and Economics, March 2009.

[14] Khomsiyah.2005. Analysis on the Quality Implementation of Corporate Governance Disclosure. Dissertation. Faculty of Economics, University of Gajah Mada. Yogyakarta.

[15] Murcia, Fernando Dal-Rai and Ariovaldo Dos Santos. 2010 "Determinants of Corporate Voluntary Disclosure in Brazil". Journal of International Business Studies. Vol 2 (pp. 234-278).

[16] National Committee on Governance. 2006. Code of Good Corporate Governance Indonesia. Jakarta: National Committee on Governance.

[17] Stiles, P. and Taylor, B. 2001. Boards at work - how directors view Reviews their roles and responsibilities. Oxford University Press, Oxford.

[18] Suhardjanto, D and Choiriyah, U. 2010 information gap: Demand Supply Environmental Disclosure in Indonesia. Journal of Finance and Banking. 14 (1); 36-51.

[19] Suhardjanto, D. and A. Goddard. 2011. Disclosure of Financial Risk and Corporate Governance: Empirical Research Banking Indonesia. Journal of Financial and Banking 15 (1): 105-118.

[20] Suhardjanto, D., Edi, and Akhmad Supriyono Abdul Mustaqim.2014. Influence on The Level Corporate Governance Disclosure Compliance Mandatory IFRS convergence in Indonesia. National Symposium XVII Accounting Lombok: 1-26.

[21] Suhardjanto, et al. 2012. Investigation of the IFRS convergence in Indonesia: Mandatory Disclosure Compliance Levels and Relation to Corporate Governance Mechanism.

Copyright © 2017 GMP Press and Printing (http://buscompress.com/journal-home.html)
ISSN: 2304-1013 (Online); 2304-1269 (CDROM); 2414-6722 (Print)

[22] Sumon DasRob Dixon and Michael Amir, 2014. Corporate Mandatory Reporting: A Longitudinal Investigation of Listed Companies in Bangladesh. Proceedings of the 9th Annual London Business Research Conference 4-5 August 2014, Imperial College, London, UK, ISBN: 978-1-922069-56-6.
[23] Torchia, Mariateresa Andrea Calabro, (2016), "Board of directors and financial transparency and disclosure. Evidence from Italy", Corporate Governance: The International Journal of Business in Society, Vol. 16 Iss 3 pp
[24] Utami, et al, 2012, "Investigation In IFRS convergence in Indonesia: Mandatory Disclosure Compliance Levels And Relation With Corporate Governance Mechanisms," National Symposium Papers Accounting XV, Aceh.
[25] Wild, J., et al. (2005). Financial Statement Analysis. Jakarta: Four Salemba.
[26] Yawson, A. 2006. Evaluating the characteristics of corporate boards associated with layoff Decision. Corporate Governance: An International Review 14 (2), 75-84.

Copyright © 2017 GMP Press and Printing (http://buscompress.com/journal-home.html)
ISSN: 2304-1013 (Online); 2304-1269 (CDROM); 2414-6722 (Print)