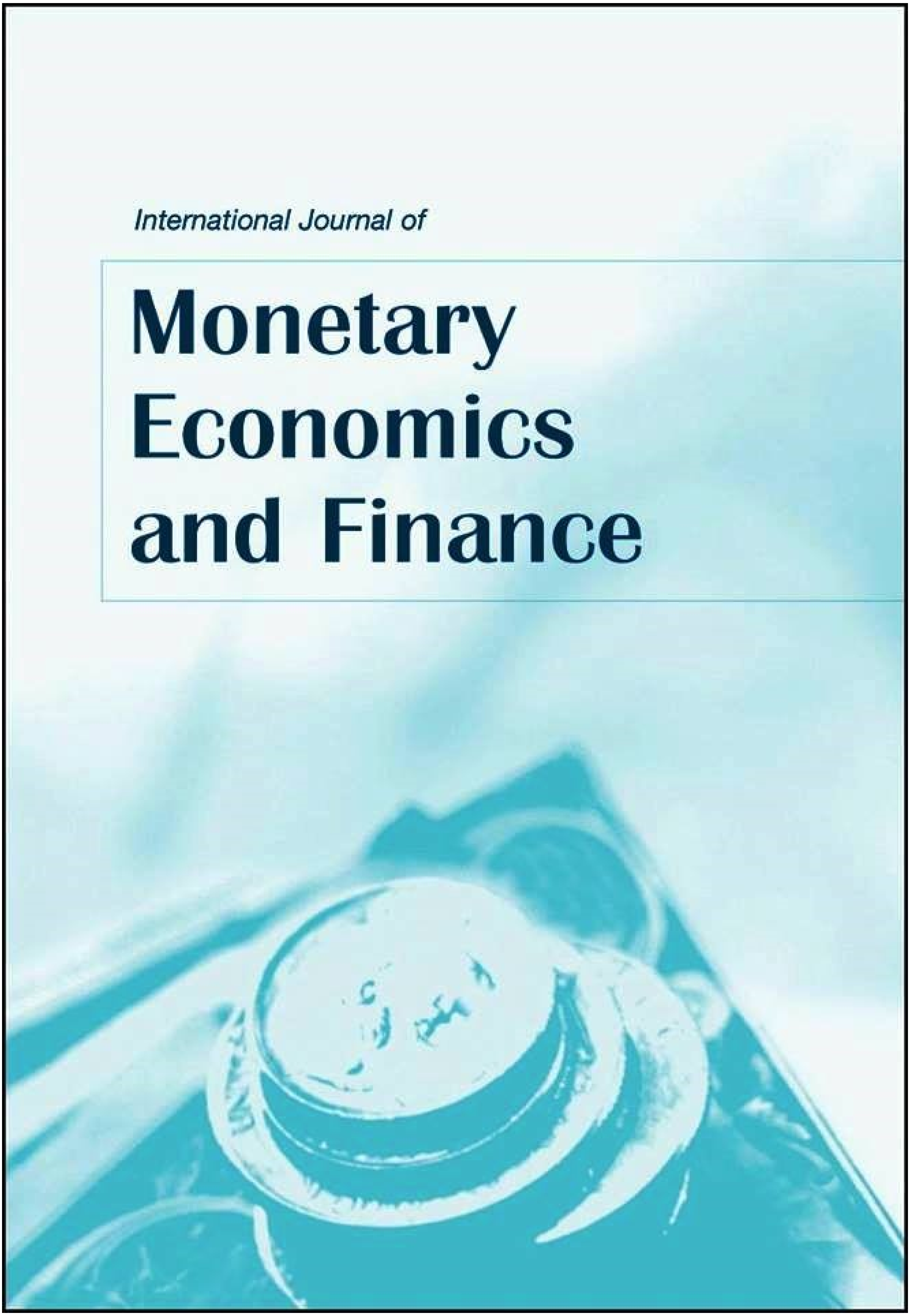
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Implementation of corporate governance and mandatory disclosure in the Indonesian banking sector: good news or bad news

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Abstract: This research examines whether the implementation of corporate governance and mandatory disclosure in the Indonesian banking sector is good or bad. The findings are expected to have value in decision making for various users and to transform corporate governance from a curative action into a corporate culture/value based on the good corporate governance principle, which runs systematically and requires support from internal and external factors. Secondary data from the global financial crisis (2007–2009) are collected through purposive sampling. Multiple regression analysis is performed to test the hypothesis for effects among managerial ownership, audit committee, independent commissioner, mandatory disclosure, return on equity (ROE), return on assets (ROA), non-performing loans (NPL) and rentability. Mandatory disclosure positively affects ROA, independent commissioners and mandatory disclosure positively affects NPL, and independent commissioner and mandatory disclosure negatively affect rentability.

Keywords: corporate governance monitoring mechanism; mandatory disclosure; corporate performance; rentability.

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1 Background

Corporate governance has become an important global issue. Almost all economic links of a country, such as company, management, investor, government and stakeholder, believe that corporate governance can improve performance, increase corporate value and yield long-term benefits. Corporate governance is needed to restructure the agenda in the perspective area (Sevic and Sevic, 2007) and to strengthen contract application to reduce loss from asymmetry information between the principal and the agent as explained in agency theory (see Jensen and Mecling, 1976).

Fan and Wong (2002) find that the East Asian financial crisis has forced companies to recheck their financial reporting sufficiency, especially their accountancy and transparency reports. However, the quality of their financial reporting remains low as observed by their investors. Fan and Wong (2002) suggest that economic reformers and regulators in East Asia must improve corporate governance and financial report disclosure in their respective countries. An accountancy research (see Ball et al., 2000; Ali and Hwang, 2000) indicates that apart from the accountancy standard, the features of an institutional environment, including corporate governance, can explain the differences in the characteristics of accountancy information from each country.

Several studies on corporate governance have shown that such a strategic concept is not without weaknesses. According to Aguilera and Cuervo-Cazurra (2004), major investors such as CalPERS, which was established in the USA in 1996, actively pressure domestic and international companies to apply corporate governance and believe that such a concept is beneficial for businesses and can increase shareholder value. However, several companies continue to face scandals and the minority shareholders, including taxpayers, continue to suffer. They also find that directors, investors and governments do not have significant roles in promoting corporate governance. This finding contradicts the opinion that investors primarily trigger the increase in corporate governance even though they themselves place pressure on the stock market.

The East Asian financial crisis in 1997 had detrimental effects in Indonesia. For instance, the economic growth of the country decreased from 7.98% to 4.65%. Inflation surged from 6.63% to beyond 11.60%. The balance of payments fell dramatically from USD 4.451 million to USD –10.021 million. The state budget plummeted from 818 billion rupiahs to 456 billion rupiahs. The rupiah exchange rate sharply decreased from 2450 rupiahs to 13,513 rupiahs per USD 1 between June 1997 and the end of January 1998 (Tarmidi, 1999). Many businesses, especially banks, declared bankruptcy during this period.

The crisis called for the involvement of the international monetary fund (IMF). The international monetary institution offered some loans with special requirements, including applications and improvements of corporate governance systems. In addition, the IMF attributed the economic vulnerability of Indonesia to the absence of corporate governance in the country. The letters of intent signed by then President Soeharto indicated that the application of corporate governance in Indonesia was not a local initiative but the ‘only option’ to resolve the financial crisis (Kamal, 2010).

Indonesian banks were on the verge of collapse during the crisis. The banking industry, which is the most important aspect of contemporary economics, desperately sought for help. The government made a giant leap to earn the trust of the community. Using the liquidity support scheme of Bank Indonesia, the government distributed hundreds of trillions of rupiahs to some banks to support the pillars of national banking. This form of assistance was expected to help these banks conduct their obligations and responsibilities. Although Indonesia gradually freed itself from the crisis, the Indonesian State Budget continued to bear the interest from such liquidity support.

As a continuation of the bank restructuring that began in 1998, Bank Indonesia published a national banking blueprint, the Indonesian Banking Architecture (IBA), on 9 January, 2004. The blueprint serves as a basic and holistic framework of the

Indonesian banking system and provides the direction, form and industrial order for banks for the next 5–10 years. IBA has six pillars, namely,

a a healthy banking structure

b an effective arrangement system

c an independent and effective controlling system

d a strong banking industry

e sufficient supporting infrastructure

f consumer protection (Bank Indonesia website).

These pillars follow the principle of banking governance applied in accordance with the regulations of Bank Indonesia (BIR/PBI), including BIR/PBI number 8/14/PBI/2006, which pertains to changes to Regulation 8/4/PBI/2006 about the implementation of good corporate governance in public banks.

Zaidirina and Lindrianasari (2015) find that Indonesian companies have not implemented corporate governance in accordance with their functions. For instance, these companies did not deliver their corporate governance application reports to the BIR. Moreover, the Corporate Governance Perception Index (CGPI) does not serve as an accurate signal of corporate performance. CGPI research remains voluntary and is not considered a determining variable of corporate value and financial performance.

BIR implemented corporate governance in 2006 to test the readiness of Indonesian banks to face global financial crises as well as the complexity and high competition risks in the industry. The incorrect implementation of corporate governance increases operational cost. This research tests whether the implementation of corporate governance and mandatory disclosure in the Indonesian banking sector is good (i.e., help banks face global financial crises) or bad (i.e., lead to the collapse of the Indonesian economy).

This research is primarily based on agency and signalling theories. The good corporate governance mechanism is measured from the perspectives of managerial ownership, audit committee and independent commissioner. The differences in such perspectives are adjusted according to the Indonesian business environment, the research period and methodology and the sample size. These differences are adjusted because Indonesia follows a two-tier governance pattern in which the commissioner controls and gives demands (i.e., suggestions and advice) to the director, while the director is fully responsible in the implementation of corporate policies.

The test results show that the managerial ownership variable (Dum_1) has the minimum value of 0.00, maximum value of 0.00 and deviation standard of 0.00. Therefore, the regression coefficient of the managerial ownership dummy is eliminated from the analysis because the data are constant. Moreover, between 2007 and 2009, the Indonesian banking industry only gave compensation in the form of cash and did not publish employee stock options both at the management (commissioners and directors) and employee levels. Therefore, the sample does not include managerial ownership. The results of the first equation indicate that only the mandatory disclosure variable (X_4) positively and significantly affects return on equity (ROE). The results of the second equation indicate that the audit committee (X_2), independent commissioner (X_3) and X_4 have significant effects on return on assets (ROA). Specifically, X_2 negatively affects ROA, whereas X_3 and X_4 positively affects ROA.

These findings indicate that a having an audit committee and conducting high-intensity audit tend to reduce the ROA performance of banks. This controversial phenomenon occurs because of the inefficient audit implementation by the committee. This inefficiency is reflected by the high audit cost in some samples. In accordance with another finding, that audit committee is positively related to rentability, which indicates that an increase in audit cost will increase operational cost. The results of the third equation show that X_3 and X_4 positively and significantly affect non-performing loans (NPL). The results of the fourth equation show that X_3 and X_4 negatively and significantly affect rentability. By contrast, X_2 has a positive yet insignificant effect on rentability.

This paper is divided into several sections. Section 1 discusses the contextual problem and the findings from previous research. Section 2 explains the theoretical background and hypothesis development. Section 3 presents the methodology. Section 4 analyses the hypothesis testing results and outlines the discussion. Section 5 summarises the findings, limitations, implications and suggestions for future research.

2 Theoretical study and hypothesis development

2.1 Corporate governance, agency theory and signalling theory

Jensen and Meckling (1976) define the relation of agency as a contract in which one or more people (principals) collaborate with another (the agent) in conducting some services on behalf of those who delegate the authority of decision making to an agent. Although both parties are related to utility maximisers, the agent does not always act in accordance with the interests of the principals.

The principal can give incentives to the agent and add a monitoring cost to limit the deviating activities of the latter. The principal can also use bonding cost to guarantee that the agent will not take certain actions that will lead to financial loss. Generally, zero cost cannot ensure that the agent will make the optimal decision from the perspective of the principal. In most agency relations, the principal and the agent are subjected to monitoring and bonding costs (cash or non-cash). Agency cost or residual loss refers to the reduction in the wealthfare of the principal as a result of wrong decisions. The amount of agency cost varies across companies depending on their management style, freedom in decision making, monitoring cost and bonding activities (Jensen and Meckling, 1976).

Agency cost can be reduced by implementing an efficient contract and applying corporate governance. Acknowledging the importance of good corporate governance, as reflected in the continuous application of the principles of transparency, accountability, responsibility, independency and fairness, many researchers have begun to investigate this topic. Aguilera and Cuervo-Cazurra (2004) suggest that the application of corporate governance is determined by global pressure that can increase the transparency and accountability among directors, managers and shareholders, which in turn can increase corporate competitiveness.

The banking industry supervises and evaluates the corporate governance practices of companies before giving them credit or funding their projects. According to Nagarajan (2014), a network that enables the stakeholder and bank to have direct roles in the corporate governance of a company must be established. However, to fulfil its role as an effective regulator, the banking industry must be improved, inspected and held accountable and this step poses a challenge to the implementation of good corporate governance.

The accuracy of market reaction and the response speed of the market are essential elements of market efficiency. The former refers to how financial reporting disclosure, which is both mandatory and voluntary, is presented correctly and is accurately received by the market. Measurement application is evaluated by an external party. signalling theory emphasises the importance of the published information in helping external parties make accurate investment decisions (Connelly, 2011). The information sender must choose an appropriate methodology for the delivered information to be qualified and translated accurately by the receiver. If the announcement is positively evaluated, the market will react immediately (Hartono, 2000).

Signalling theory also emphasises the importance of complete, relevant, accurate and timely information as an analysis instrument that enables stock market investors to make their decisions. Information asymmetry may enable some parties to obtain more information from the other parties. When such an asymmetry occurs, the party with the information must adopt a mechanism to deliver credible information, whereas the party without the information must guard themselves from a possible expropriation by the former. Accountancy is a mechanism that can help insiders present relevant information to external parties.

An efficient market, including the market actors such as analysts and investors, should observe accuracy when reacting to certain information. For instance, good news encourages positive market reaction and increased stock prices, whereas bad news encourages negative reactions from market actors and reduced stock prices. Apart from accuracy, an efficient market also requires speed. That is, speed in disclosure can prevent good news from becoming bad news.

2.2 Hypothesis development

Corporate governance is promoted by supervising or monitoring management performance. The goal is to guarantee management accountability. The first monitoring mechanism, aligning various interests and providing suggestions and advice to the director, can be achieved through the monitoring role of the independent board of commissioners. The second mechanism is achieved through the audit committee, which has an important role in enhancing the quality of financial reporting information to reduce the opportunistic behaviour of managers. The third monitoring mechanism is achieved by enlarging the ownership share of the management (managerial ownership) in the company. Therefore, the interests of the owner and shareholder can be aligned with managerial policy (Rahmawati, 2013). Lindrianasari and Indra (2014) find that the Indonesian banking industry still gives high dividends to company owners during the 2008 financial crisis, and thus the managers of these companies keep trying to disseminate good news to external parties despite the decreasing net profits of banks. The absence of managerial ownership data from the Indonesian banking sector is attributed to the provision of cash-based compensation (including salaries and bonuses) to managers and to the failure of banks in issuing employee stock options at both the management (commissioners and directors) and employee levels.

Previous studies have revealed contrasting effects of corporate governance on corporate performance (ROE and ROA). Mitton (2002) argues that corporate governance has a strong effect on corporate performance during the East Asian financial crisis

(1997–1998) for two reasons. First, the crisis promoted the expropriation of minority shareholders. Second, the crisis drove investors to become more careful and thorough when evaluating companies, particularly their corporate governance. Aggarwal et al. (2005) test how US mutual funds select their investment allocations in emerging markets after the crisis during the 1990s. They find that US funds invest more in emerging markets with strong accountancy standard application criteria, with strong consideration of shareholder rights and with clear law frameworks. Anglo-Saxon investors in the global stock market prefer companies that apply corporate governance.

Although some studies have found a positive relationship between corporate governance and performance, other researchers, including Zaidirina and Lindrianasari (2015) and Putra and Simanungkalit (2014), have shown opposite results. Zaidirina and Lindrianasari (2015) indicate that CGPI negatively affects ROE because the evaluation of this index in Indonesia is still voluntary, cost charged and published in media. By contrast, Putra and Simanungkalit (2014) indicate that the implementation of good corporate governance has a key yet indirect role in increasing the value of companies. As a result, some companies in their sample are still in development and require further information disclosure. Therefore, despite their high equity value, these companies are not yet able to maximise their profit earnings.

Government policies that require financial report disclosure can force companies to evaluate and rearrange their performance-increasing strategies. Cormier et al. (2014) suggest that if the stock market receives disclosed information and pressures the management to act further, mandatory environmental disclosure can strengthen corporate governance to increase ROE. Therefore, we propose the following:

H_{1a}: Managerial ownership is related to ROE.

H_{1b}: Audit committee is related to ROE.

H_{1c}: Independent commissioner is related to ROE.

H_{1d}: Mandatory disclosure is related to ROE.

Studies that have investigated the relationship between corporate governance and ROA also provide contrasting results. Hopt (2013) finds that the failure of corporate governance in banking and financial institutions leads to a decreased performance (including ROA) and directly contributes to the emergence of a financial crisis. Koehn and Ueng (2005) evaluate the reactions of investors towards the corporate governance level of independent institutions, including institutional shareholder services (ISS) or governance metrics international. They find that corporate governance does not measure the quality of a company in terms of profit earnings (ROA and ROE) and ethics. This finding suggests that investors do not depend on the score of corporate governance as issued by ISS.

The mandatory and voluntary disclosure of financial reporting information can affect the performance (including ROA) of a company. O'Sullivan et al. (2008) show that the increased market trust on corporate governance after the issuance of strong regulations from the government results in significant reactions from the market towards information disclosure and vice versa. Therefore, mandatory and voluntary disclosure can help increase the performance of Indonesian companies without regulations or have weak implementation of corporate governance. Therefore, we propose the following:

H_{2a}: Managerial ownership is related to ROA.

H_{2b}: Audit committee is related to ROA.

H_{2c}: Independent commissioner is related to ROA.

H_{2d}: Mandatory disclosure is related to ROA.

The ratio of NPLs reflects the risk of credits that is covered by banks. Small NPLs do not necessarily reflect the favourable performance of banks and may instead indicate that the bank is not willing to take risks. For example, many state banks in Indonesia give consumptive credit to civil servants whose credit payments are guaranteed by their salaries/fees. This employee credit reduces the credit risks of the bank to a low level. The precautionary principle embraced by the banking industry sometimes hinders the development of a business plan for the productive sector. Proper credit distribution may also induce a multiplier effect that is marked by the development of the real sector. These factors can help encourage the growth of the banking industry, in which good governance and disclosure have important roles.

Ahrens et al. (2011) explain that a financial crisis is a great natural event and that it creates an understanding gap towards corporate governance. This explanation encourages us to rethink about integrated concepts, such as shareholder, risk management (including credit risk) and management incentive. For instance, the provision of performance-based incentives (i.e., pay performance) by the management should be reviewed because these incentives make the management too willing to take risks, even those beyond the limit of their tolerance. Akindele (2012) finds a positive effect between corporate governance and banking risk management, and this effect indicates that good corporate governance encourages better risk management. The delivery of financial report information to the public, whether mandatory or voluntary, generally does not disclose all items. Bhasin (2012) argues that companies only disclose less than 50% of their disclosure index items, but Bhasin (2012) only presents a percentage of these items. Therefore, further research must be conducted to investigate the effect of incomplete disclosure on performance, including credit risk management.

H_{3a}: Managerial ownership is related to NPL.

H_{3b}: Audit committee is related to NPL.

H_{3c}: Independent commissioner is related to NPL.

H_{3d}: Mandatory disclosure is related to NPL.

Sharma et al. (2008) test how auditors respond to the practice of corporate governance in institutions where corporate governance is not obligated by law. They find that auditors make more profitable evaluations under a strong level of corporate governance. Given that good corporate governance has a role in increasing the trust of auditors in the internal control of companies, this factor can also lower the substantive testing level, thus reducing the audit cost. The findings of Sharma et al. (2008) are consistent with those of Bortolon et al. (2013), who suggest a negative relation between corporate governance and audit and non-audit cost. Therefore, the improved corporate governance of a company can lead to a lower audit risk. Therefore, independent auditors, without losing their independency, are willing to receive low pay and vice versa. Bortolon et al. (2013) also find that the increasing awareness in the importance of good corporate governance can increase audit service demand, thus increasing the audit service rate.

Eldomiaty and Choi (2006) investigate the agency regulation policies of companies in East Asia that are related to transparency and percentage of long-term financing in total funding. The support of institutional settings for financial report information disclosure (mandatory and voluntary) and the high long-term financing increase the trust of external investors in the future of companies in East Asia. Moreover, the regulations that enable allow banks to participate actively in the businesses of companies enhance the effectiveness, efficiency and transparency of these financial institutions. This condition enables banks and stock markets in East Asia to produce long-term achievements that can benefit their companies.

H_{4a}: Managerial ownership is related to rentability.

H_{4b}: Audit committee is related to rentability.

H_{4c}: Independent commissioner is related to rentability.

H_{4d}: Mandatory disclosure is related to rentability.

3 Research methodology

3.1 Research sample and data

The sample is obtained from 14 public banks listed in the Indonesian Stock Exchange. Data on panel corporate governance, mandatory disclosure and company performance are collected from 2007 to 2009. The research period begins from 2007, during which BIR Number 8/4/PBI/2006, a banking policy that mandates the implementation of good corporate governance, is changed to BIR Number 8/14/PBI/2006. Many economists also predicted 2009 as a difficult year for business. The Indonesian government did not worry about the global economic crisis when it began in October 2008. However, the world financial crisis gradually affected Indonesia.

Data on banking performance are collected from the websites of the sample firms and of the Indonesian Stock Exchange. The corporate governance mechanism involves managerial ownership, audit committee and independent commissioner. Mandatory disclosure comprises 16 point items and 104 items of disclosure. Corporate performance is measured by profitability (proxied by ROE and ROA), NPL and rentability.

3.2 Research variables

Dependent variable

a ROE = Net profit/total equity

b ROA = Net profit/total assets

c NPL = Total NPL/total credit

d Rentability (proxied by operational cost/operational earnings).

Independent variable

Corporate governance mechanism is treated as the independent variable, and it is measured from managerial ownership (Dum_1), X_2, X_3 and X_4. The item list of mandatory disclosure is derived from the BAPEPAM Decree of Chairman (Keputusan Ketua BAPEPAM), the Financial Agency in Regulation of X.K.6 Number Kep-134/BL/2006, and the Indonesian General Guideline of Corporate Governance (KNKG, 2006).

4 Hypothesis testing, results and discussion

We perform regression analysis with the following equation:

$$\begin{aligned}\text{ROE}_{i,t} = \alpha_1 + \beta_1 \text{ managerial ownership}_{i,t} + \beta_2 \text{ audit committee}_{i.t} \\ + \beta_3 \text{ independent commissioner}_{i,t} + \beta_4 \text{ mandatory disclosure}_{i,t} + \varepsilon_{i,t} \ldots\end{aligned} \quad (1)$$

$$\begin{aligned}\text{ROA}_{i,t} = \alpha_1 + \beta_1 \text{ managerial ownership}_{i,t} + \beta_2 \text{ audit committee}_{i.t} \\ + \beta_3 \text{ independent commissioner}_{i,t} + \beta_4 \text{ mandatory disclosure}_{i,t} + \varepsilon_{i,t} \ldots\end{aligned} \quad (2)$$

$$\begin{aligned}\text{NPL}_{i,t} = \alpha_1 + \beta_1 \text{ managerial ownership}_{i,t} + \beta_2 \text{ audit committee}_{i.t} \\ + \beta_3 \text{ independent commissioner}_{i,t} + \beta_4 \text{ mandatory disclosure}_{i,t} + \varepsilon_{i,t} \ldots\end{aligned} \quad (3)$$

$$\begin{aligned}\text{Rentability}_{i,t} = \alpha_1 + \beta_1 \text{ managerial ownership}_{i,t} + \beta_2 \text{ audit committee}_{i.t} \\ + \beta_3 \text{ independent commissioner}_{i,t} + \beta_4 \text{ mandatory disclosure}_{i,t} \\ + \varepsilon_{i,t} \ldots\end{aligned} \quad (4)$$

To test the hypotheses, we first perform the ANOVA test (*F*-test) to determine if all independent variables in the model are the best predictors of the dependent variable. Second, we perform an individual parameter significance test (*t*-statistic test) to determine to what extent the effect of an independent variable individually explains the variance in the dependent variable. We use as 37 data for the *t*-statistic test. The probability value is determined at $\alpha = 0.05$ or 5% and $\alpha = 0.10$ or 10%. Dum_1 has a minimum value of 0.00, maximum value of 0.00 and standard deviation value of 0.00. Given that the banks in the sample do not have managerial ownership, the regression coefficient of Dum_1 is eliminated from the analysis because the data are constant.

The results of the first equation reveal that the *F* value is 3.731 with a significance value of 0.021 (below 0.05), which indicates that the regression coefficients of Dum_1, X_2, X_3 and X_4 simultaneously affect ROE. The *t*-statistic test with $\alpha = 0.05$ shows that X_2 and X_3 are not significant, while X_4 is significant. This result indicates that X_4 positively and significantly affects ROE.

The result of the second equation shows that the *F* value is 3.194 with a significance value of 0.036 (below 0.05). This finding indicates that the regression coefficients of Dum_1, X_2, X_3 and X_4 simultaneously affect ROA. The *t*-statistic test with $\alpha = 0.05$ and 0.10 reveals that X_2 is significant with a negative regression coefficient, while X_3 and X_4 are significant, this indicating that X_2, X_3 and X_4 significantly affect ROA. Specifically, X_2 negatively affects ROA, while X_3 and X_4 positively affect ROA.

The result of the third equation shows that the F value is 4.555 with a significance value of 0.008 (below 0.05). This finding indicates that the regression coefficients of Dum_1, X_2, X_3 and X_4 simultaneously affect NPL. The t-statistic test with $\alpha = 0.05$ shows that X_2 is not significant, while X_3 and X_4 are significant, thus indicating that X_3 and X_4 positively and significantly affect NPL.

The result of the fourth equation test shows that the F value is 3.978 with a significance value of 0.015 (below 0.05). This finding indicates that the regression coefficients of Dum_1, X_2, X_3 and X_4 simultaneously affect rentability. The t-statistic test with $\alpha = 0.05$ and 0.10 shows that X_2 is not significant with a positive regression coefficient value, while X_3 and X_4 are significant, thus indicating that X_3 and X_4 negatively and significantly affect rentability.

The hypothesis test results indicate that good corporate governance, including transparency, accountability, responsibility, independency and fairness, is not completely understood by both the banking business actors and the public in Indonesia. Consequently, international communities give Indonesia a low good corporate governance implementation rating as what has been done by Standard and Poor, CLSA, Pricewaterhouse Coopers, Moody's Morgan and Calper's. The 2013 good corporate governance report of CLSA gave Indonesia the lowest rank with a score of 22 for law enforcement, 35 for regulation and corporate governance practice, 33 for politics and policy support, 33 for corporate governance culture and an average score of 37. Although this score is higher than that in 2012, Indonesia remains the lowest ranked Asian country in the report (Daniri and Ghozali, 2014).

This study has some controversial findings. First, audit committee, as one of the corporate governance mechanisms, does not have a significant effect on ROE and NPL, negatively and significantly affects ROA, and positively yet insignificantly affects rentability. The t-statistic test results show a high rentability ratio above 80%. Therefore, the Indonesian banking sector is largely inefficient compared with those of other ASEAN countries (around 40–60%). The high rentability also reflects the weak implementation of good corporate governance in the industry.

Second, mandatory disclosure significantly affects ROE, ROA, NPL and rentability, and it receives a positive response from the stock market. However, Indonesian banks only report disclosure items with a total score ratio of 50%, consistent with the findings of O'Sullivan et al. (2008) who reveal that the weak implementation of corporate governance drives the market to respond immediately to mandatory and voluntary information disclosure. This finding is also in accordance with that of Aguilera and Cuervo-Cazurra (2004). Indonesian businesses believe that corporate governance can increase their competitiveness and shareholder value (good news). However, corporate governance does not include values that run systematically but is only implemented for the sake of a curative action. Therefore, fraud and expropriation of minority shareholders and taxpayers still continue in practice (bad news).

5 Conclusions, limitations, implications and suggestions

Mandatory disclosure positively affects ROE, audit committee negatively affects ROA, independent commissioner and mandatory disclosure positively affect ROA, independent commissioner and mandatory disclosure positively affect NPL, and independent commissioner and mandatory disclosure negatively affect corporate rentability.

Therefore, economic reformers and regulators in East Asia should promote corporate governance and financial report disclosure in their countries. Indonesia suffered greatly from the 1997 financial crisis and is still experiencing the consequences of the 2009 global crisis. Therefore, complete and sustainable improvements in governance are needed.

Directors, investors and governments do not have active roles in corporate governance implementation. The reason is that corporate governance is a principle-based regulation without a fulfilled standard setting criteria, including a regulation that

- is useful for decision making and that adopts an information perspective
- can reduce asymmetry information
- considers economic consequence from a new assigned standard
- considers political aspects that emerge from a standard setting (Scott, 2009).

Given these conditions, good corporate governance has not received a positive response from the stock market and has not directly affected corporate performance, especially if related to operational cost. Therefore, the good news also turns into bad news.

Future studies may expand their samples to other countries. Giving performance bonuses in the form of employee stock options is worth exploring as a determinant of good corporate governance application. The banking industry is expected to act as a regulator and to force companies to adopt good corporate governance. Therefore, the accountability of the banking industry should be evaluated, improved and promoted. This research offers two key recommendations. First, internal policies are needed in setting and implementing business processes and in developing human resources based on corporate culture and corporate values consistent with the principle of good corporate governance. Second, the banking sector should be supported by regulations that fulfil standard settings, legal certainties, support of a supervision agency authority and external audit obligation. Such support can strengthen the banking sector when facing various economic problems.

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