ANALYSIS OF THE IMPLEMENTATION OF GOOD CORPORATE GOVERNANCE AND SUSTAINABILITY REPORT DISCLOSURE OF BANKING COMPANIES LISTED ON INDONESIA STOCK EXCHANGE IN 2011-2013

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***ABSTRACT**: This research aims to find out and analyze the implementation of Good Corporate Governance and disclosure of Sustainability Report of banking company listed in Indonesia stock exchange in 2011-2013. This research uses qualitative methods for data collection with the study of documentation. The data collected and analyzed are on sustainability report and annual report of banking companies from 2011-2013. The results showed that the principles of good corporate governance encompassing transparency, accountability, responsibility, independency and fairness have been well implemented. The level of the implementation of sustainability report has been grown up from year to year.*

Keywords: Good Corporate Governance, Sustainability Report.

1. INTRODUCTION

In the current era of globalization, companies require a certain degree of certainty or assurance that can lead them to a sense of comfort at a later date, in which rivalry or competition in the industry is so heavy. According to Anggarini[1]companiesfaced not only the responsibility for profit or loss (single bottom line), but also the triple bottom line concept, i.e. profit, people, and planet. Therefore, companies are not only to make profit as a way to survive in the competition but they must also pay attention to social and environmental aspect.

Attention to social and environmental aspects is what lies behind the company on its needs for Good Corporate Governance (GCG). Finance and Development Supervisory Agency (BPKP in Indonesia)[2] mention that poor corporate governance was the cause of the economic crisis in Indonesia in 1997 whose impact is still felt today.The financial crisis in the United States triggered by financial scandals of big companies involving the companies' top executives was also due to the absence of the implementation of the principles ofGCG. FDSA also states that GCG arises in connection with a principal-agency theory, i.e. The conflict between the principal and his agent, which should be managed so as not to cause harm to the parties involved.

According to the Regulation of Bank Indonesia No. 8/14/PBI/2006 [3]on the Implementation of Bank GCG, banking industry development is very fastand always accompanied with the increasing complexity of the bank business activities, which results in an increase in the risk exposure of the bank. GCG in the banking industry has become more important at present and in the futurebecause of the increasing risks and challenges of the banking industry. In order to improve its performance,the bank has to protect the interests of stakeholders and improve its compliance with legislation and ethical values (code of conduct), which are commonly apllied in the banking industry.Bank is required to conduct its operation based on the principles of GCG.

The banking companycommitmentto the social and environmental aspects is also likely to be a key issue of the need for ongoing reporting (sustainability report) which refers to the transparency of disclosure of information on the activities of social enterprises or activities of the company. Transparency of information disclosed was not only on the financial information of the company, but also on the impact (externalities) of social and environmental activities of the company.

Therefore, the company must discloseits aspects of economy, social, environment, and sustainability as a form of accountability to investors and stakeholders. For this, the implementation of the concept of GCG is expected to improve the implementation and disclosure of corporate social responsibility (CSR)[4].

2. LITERATURE REVIEW

2.1. GOOD CORPORATE GOVERNANCE

IICG (Indonesian Institute for Corporate Governance) [5]defines corporate governance as a set of mechanism for directing and controlling the company operations in accordance with the expectations of stakeholders. In addition, the Forum for Corporate Governance in Indonesia (FCGI) [6]also explained that the purpose of corporate governance is to create added value for all interested parties.

The understanding of GCG according to Regulation of Bank of Indonesia No. 8/14/PBI/ 2006 [3]on the Implementation of GCG for commercial bank is bank governance that applies the principles of transparency, accountability, responsibility, independency, and fairness. GCG is corporate governance run by the company to achieve the expected results and has impact on the stakeholders.

Based on the Code of Indonesian GCG, corporate governance has five principlesin which every company must ensure that allthe principles are applied to every aspect of its business and in all levels ofits operation to keepits sustainability by paying attention to stakeholders[7].

Implementation of GCG in the banking industry should always be based on five basic principles. (1) Transparency meansto maintain objectivity in doing business in which companies must provide relevant material and information is easily accessed and understood by stakeholders. Companies must take the initiative to reveal the problem required by legislation, and is important for decision-making by shareholders, creditors and other stakeholders. (2) Accountabilityrequires companyto account for its performance in a transparent and fair way. Therefore, the company should be properly managed, measured and in accordance with the interests ofthe shareholders and other stakeholders. Accountability is a necessary prerequisite for keeping the company continuous performance. (3) Responsibility is that companies must comply with the regulation and is socially and environmentally responsible to maintain its long-term sustainability of the business and gain recognition as a company with GCG.(4) Independency means the company must be independently managed in whichit can not be interfered by other parties. (5) Fairness is a principle wherethe company must consider the interests of its shareholders and other stakeholders based on principles of fairness and equality.

2.2. SUSTAINABILITY REPORT

Global Reporting Initiative (GRI) G3 [8]defines sustainability report as a reporting system that allows all companies and organizations to measure, understand, and communicate all information about the economic, environmental, and social aspects as their responsibility to internal and external stakeholders on the performance and achievementof their sustainable development goals. Meanwhile, according to Darmawati et.al.[9], sustainability report is a report prepared by companies to measure, reveal, as well as demonstrate their efforts to become a company accountable to all stakeholdersfor the purpose of their performance towards sustainable development.

Sustainability report must be based on the guidelines of GRI G3 [8],which includes disclosure standards: strategy and profile, economy, environment, and social. This section is intended to provide a high-level view of strategies regarding the organization relationship to sustainability in the context of efforts to provide a more detailed report.

The strategy and analysis should contain a statement of official policy makers in the organization (e.g., CEO and other senior high-ranking officers) about the relevance of sustainability to the organization and its strategy. The strategy and analysis should contain a statement about the description of the impact of risks and opportunities.

3. RESEARCH METHODS

This is a descriptive research that aims to provide a systematic overview of scientific information derived from the research subject and object [10].The population is all the banking companies listed on the Indonesia Stock Exchange (IDX) in 2011-2013 and nine of which are taken as the sample.

Purposive sampling method was apllied with the purpose of obtaining appropriate samples with the following criteria:

1)The banking companywhich published sustainability report separately or incorporated in the annual report of 2011-2013 and is accessibleby internet.

2) The banking company that issued GCG report included in the annual report through the official the website of Indonesia Stock Exchange and each company during 2011-2013.

The data are secondary data from GCG report and sustainability report asdependent variable and the data of independent variables were obtained from the official website of the Indonesian Stock Exchange (IDX) and the official website of each company.

Based on the review of the literature and previous studies, in this study GCG is measured in terms of transparency, accountability, responsibility, independency, and fairness. To help understand the GCG disclosure, sustainability report framework is required. Based on described above theory, the theoretical framework structure is as follows:

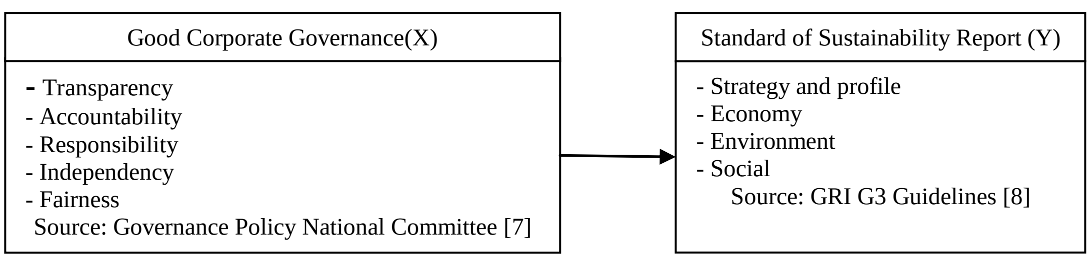

Figure 1: Research Model

The datacollected through a checklist is qualitative data which is then converted into quantitative data by labelling them withtwo categories: 1= Yes and 0 = No.

4. DATA ANALYSIS

Descriptive statistics was used to analyze the level of implementation of the principles of GCG and sustainability report disclosure of banking companies listed in Indonesia Stock Exchange.

The data shows that out of nine banks, five banks issued separate sustainability report, while the remaining four banks publishedtheir sustainability report in the annual report. In 2012, seven banks published separate sustainability report and the two remaining banks issued sustainability report incorporated in their annual report. In 2013, all nine banks published a sustainability report separately. In 2011-2013,nine banks published reports of GCG in the annual report.

5. DISCUSSION

The analysis of the implementation of GCG can be seen in the GCG report that has been written and released by each bank listed onIndonesia Stock Exchange. To determine the level of implementation of GCG in the banking companies listed on the Stock Exchange, the data were categorized and tabulate into the following five criteria:

1. 0% - 20% Very poor
2. 21% - 40% Poor
3. 41% - 60% Fair
4. 61% - 80% Good
5. 81% - 100% Very Good

Table 1: Analysis of the Implementation of GCG in 2011-2013

2011		
Indicator	**Percentage (%)**	**Category**
Transparency	100	Very Good
Accountability	98,15	Very Good
Responsibility	97,78	Very Good
Independency	96,30	Very Good
Fairness	93,33	Very Good
Average	**97,11**	Very Good
2012		
Transparency	100	Very Good
Accountability	98,15	Very Good
Responsibility	97,78	Very Good
Independency	100	Very Good
Fairness	95,56	Very Good
Average	**98,30**	Very Good
2013		
Transparency	100	Very Good
Accountability	100	Very Good
Responsibility	100	Very Good
Independency	100	Very Good
Fairness	100	Very Good
Average	**100**	Very Good

Table 2: Standard Analysis of Sustainability Report 2011-2013

2011		
Indicator	**Percentage(%)**	**Category**
Strategy and Profile	74,60	Good
Economy	51,85	Fair
Environment	37,04	Poor
Social	50,28	Fair
Rata-rata	**42,75**	**Poor**
2012		
Strategy and Profile	91,01	Very Good
Economy	69,14	Good
Environment	52,78	Fair
Social	61,95	Good
Average	**68,72**	**Good**
2013		
Strategy and Profile	94,97	Very Good
Economy	79,01	Good
Environment	67,59	Good
Social	75,56	Good
Average	**79,28**	**Good**

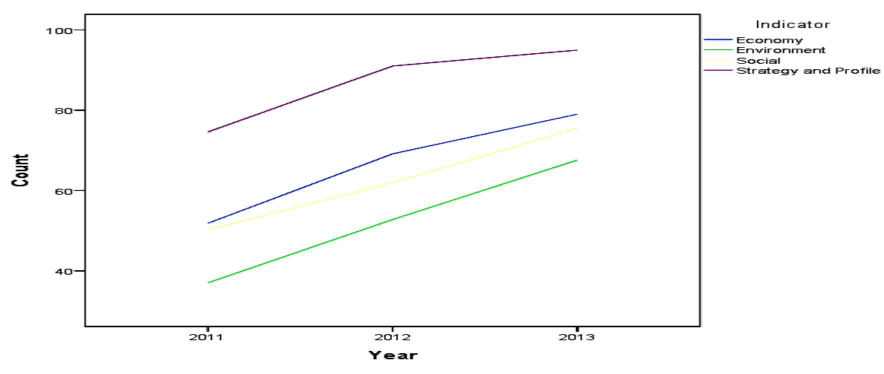

Figure 2: Graph of Standard Analysis of Sustainability Report 2011-2013 for the Four Indicators

Table 1 shows that in 2011-2013 transparancy of the implementation of GCG is 100%. The accountability of GCG implementation in2011 and 2012 equals to 98.15% and in 2013 it reaches 100%. Responsibility in two consecutive years of 2011-2012 equals to 97.78% and in 2013 has reached 100%. Independencyof GCG implementation in 2011 amounts to 96.30% and in the years of 2012-2013 is 100%. Fairness in 2011, 2012, and 2013 is 93.33%, 95.56%, and 100% respectively.

Table 1 shows that all the nine banking companies listed on Indonesia Stock Exchange in 2011-2013 haveapplied the principles of GCG very well and the level of the implementation has increased from year to year.

GRI G3 is organized as a reference for the banking companies listed on Indonesia Stock Exchange to develop a good sustainability report. Sustainability report disclosure standardswritten in the GRI G3must be adhered properly to the report prepared that reliable and easily read by the stakeholders.

Table 2 shows that the standard of disclosure of sustainability report on strategy and profile from 2011 to 2013 is 74.60%, 91.01%, 94.97% respectively. The economic disclosure standard in 2011-2013 is51.85%, 69.14%, and 79.01%.The disclosure of the environmental standard in 2011-2013 is 37.04%, 52.78%, and 67.59%. The social disclosure in 2011-2013 reached a percentage of 50.28%, 61.95% and 75.56% respectively. From Figure 2 it can be seen that the standard of disclosure of sustainability report from 2011 to 2013 has increased on average .

Based on the findings, the implementation of GCG by the nine banking companies listed on the Stock Exchange from 2011 to 2013 is 97.11%, 98.30% and 100%. The implementation of GCG by the nine banking companies increased from 2011-2013. This fact shows that the standard of disclosure of sustainability report by the nine banks is 42.75%, 68.72% and 79.28% has increased.

6. CONCLUSIONS

Based on the analysis, it can be concluded that all indicators of the standard analysis of the sustainability report vary in terms of the percentage of the contribution. From the calculation, it is shown that the indicators that are most and least influential to the performance of the banking companies are respectively strategy and profile, economy, social, and environment.

The trend of the implementation level of the four indicators from 2011 to 2013 increased. Strategy and profile in 2011is 74.60% and in 2013 is 94.97%. Economy in 2011 is 51.85% and in 2013 is 79.01%. Environment in 2011is 37.04% and in 2013 is 67.59%. Social in 2011 is 50.28% and in 2013 is 75.56%.

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