Competition, Independent Commissioner, Risk Disclosure and Financial Performance

Review of Integrative Business & Economics Research

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ABSTRACT

This study aimed to provided empirical evidence of the competitive effects and independent directors on the financial performance, with risk disclosure as an intervening variable. This study used banking companies data listed on the Stock Exchange in 2013-2015, with criteria to publish the financial statements of December 31 during 2013-2015. The samples were obtained by purposive sampling. The data were analyzed by multiple regression analysis. The results of the study shows (1) Competition shows a positive effects on financial performance, (2) Independent commissioner shows a negative effects on financial performance, (3) Risk disclosure shows a positive effects on financial performance, (4) Competition shows a positive effects on risk disclosure, (5) Independent commissioner shows a positive effects on risk disclosure, (6) Risk disclosure mediates the relationship of competition and the financial performance, (7) Risk disclosure mediates the relation between independent commissioners and financial performance.

Keywords : Competition, Independent Commissioner, Risk Disclosure, Return On Asset (ROA)

1. INTRODUCTION

This study aimed to examine the effect of competition and independent directors on the financial performance at risk disclosures as an intervening variable in the Banking industry company listed on the Indonesia Stock Exchange. The financial performance is a tool to assess the soundness of banks. It is an early warning system for the performance of the current bank and prospects for the future in developing the strategy, thus that banks can create a sound banking system and continuous (El-Chaarani, 2014). In a good condition a bank will be able to conduct normal banking operations and able to meet all its obligations properly in accordance with applicable banking regulations (Kashmir, 2008). Meanwhile, in Indonesia majority ownership is owned by the family. This causes the management of the company in accordance with the interests of the family. This will cause influence to the company's performance. This affirmation is evidenced by Huei, Ken, Kwong and Philip (2012) the influence of family ownership on performance.

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The Bank Indonesia issued new regulations on the procedure for the implementation of the bank rate, namely Bank Indonesia Regulation Number: 13/1 / PBI / 2011 about Commercial Bank Rating. The one used in this study is the level of profitability. This study used a measure of financial performance, with the profitability ratio of Return on Assets (ROA). The higher of ROA showed that banks are more efficient by using its assets to generate earnings. The ROA is used by a proxy measurement of financial performance because this ratio is less affected discretionary item in the financial statements (Barber and Lyon, 1996). The ROA is the ratio between profit after tax to total assets, ROA, the greatest Return on Assets of the company makes the rate of the greatest Return on Assets (El-Chaarani, 2014). The following table showed the level of ROA in the banking industry listed in Indonesia Stock Exchange for the period from 2013-2015.

Table 1 The Return on Assets (ROA)

No.	Year	Bank Code	Bank Name	ROA
1	2013	READ	Bank Capital Indonesia Tbk	0.84
2		BKSW	Bank Kesawan Tbk	0.46
3		BII	Bank Internasional Indonesia Tbk	1.13
4		BSIM	Bank Sinar Mas Tbk	1.07
5		INPC	Bank Artha Graha Indonesia Tbk	0.72
6		Amcor	Kentjana Windu Bank Internasional Tbk	0.96
7		NOBU	Nobu Bank Internasional Tbk	1.13
8	2014	BABP	Bank ICB Bumi Putra Tbk	0.09
9		BAEK	Bank Ekonomi Raharja Tbk	1.02
10		BCIC	Bank Mutiara Tbk	1.06
11		BEKS	Pundi Bank Indonesia Tbk	0.98
12		BKSW	Bank Kesawan Tbk	0.81
13		BMAS	Maspion Bank Indonesia Tbk	1.00
14		INPC	Bank Artha Graha Indonesia Tbk	0.66
15	2015	BAEK	Bank Ekonomi Raharja Tbk	1.19
16		BKSW	Bank Kesawan Tbk	0.07
17		BMAS	Maspion Bank Indonesia Tbk	1.11

From Table 1 it can be seen that there are many banks with lower ROA and shows the presence of problems related to the financial performance of banks in Indonesia. This phenomenon showed that the problem of financial performance in Indonesia is important for the investigation.

In order to improve the financial performance on an ongoing basis of rivalry or competition between banks will change the banks' behavior to do business. According to Claessens and Leaven (2004), the presence of high competition in the financial sector is to boost the product efficiency, the financial product quality, and the innovation level. It was evidenced by Widyastuti *et al.* (2013) who found that the competition is a significant positive impact on financial performance.

Besides the competition, in order to improve the financial performance on an ongoing basis of corporate governance concept is also an important concept. It was in

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accordance with the opinion of Saad (2010) who stated that companies that practice corporate governance will have image improvement and financial performance improvement. This statement was supported by the research Klapper and Love (2002) who found a significant positive relation between corporate governance and financial performance as ROA measurement.

Corporate Governance in this study only focused on the Independent Commissioner. Independent Commissioner has chosen because it does not have the interest, objective, a duty to supervise and control the company directly. Thus, it can minimize the agency cost that may occur due to interest differences (El-Chaarani, 2014).

Research relating to competition and financial performance conducted by Mokhtar and Mellet (2013) in Egypt that proved there is a positive effect of competition on the financial performance. This proof increased the competition that would increase the company's revenue and financial performance. However, research of Yahaya (2015) in Nigeria proved that the competition can decrease the financial performance. It was presumed by the weakness of competing meal that will reduce bank earnings to lower income.

Relating to the existence of Independent Commissioners and financial performance, a research conducted by Haque, Islam, and Ahmed (2013) in Bangladesh, Stepanofa and Ivanstova in Ukraine (2010) proved that there is a positive effect of the proportion of Independent Commissioner on the bank financial performance. The different proof by Mehran, Morrison, and Shapiro (2011) is no influence of the Independent Commissioner proportion of financial performance.

From some research results related to the competition, the proportion of Independent Commissioners and financial performance inconsistency, it is suspected by other variables that can affect the relationship. These variables are intervening variable of risk disclosures. The risk disclosure placement as a mediating variable based on that in the banking industry risk disclosure was mandatory disclosure. The important risk's information on the banking industry reported to the public which aims to determine the risk profile.

A compliance of risk disclosures is one aspect of reducing information asymmetry (Tehranian, Cornett, Marcus, and Saunders, 2006). Koehn and Santomero (1980) contend that the increase of adherence to the risk disclosures and investors will get a higher return. It is because as a compensation for the utility to meet the regulations. Furthermore, the risk disclosure is useful to monitor risks and detect potential problems so that they can take early action and the problems do not occur (Linsley and Shrives, 2006).

The risk disclosure is also useful to determine the risk profile of the company, reducing the asymmetry of information, and determine the investment decision of the portfolio (Abraham and Cox, 2007). In Indonesia, the risk disclosure by the banking industry is a mandatory disclosure that explicitly stipulated in Bank Indonesia Regulation Number: 11/25 / PBI / 2009 regarding the amendment of Bank Indonesia Regulation No. 5/8 / PBI / 2003 on Risk Management for Commercial Banks. Hence, the important compliance with regulation of risk disclosure can reduce business risk and investment risk to society.

Research Corporate Governance on the risk disclosure by proxy Independent Commissioner proved mixed results. Suhadjanto *et al.* (2012) found that the proportion of Independent Commissioner's outcome did not affect the risk disclosures. It was in contrast with the research results of Abraham and Cox (2007) in the United States; Olivera *et al.* (2011) in Portuguese; and Mokhtar and Mellet (2013) in Egypt. It showed that Independent Commissioner effects the positive risk disclosure. Thus, there are

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significant proportions of Independent Commissioner against to risk disclosure. Then, research related to competition with the risk disclosure made by Mohktar and Mellet (2013) showed a positive influence of competition on the risk disclosure.

The results of previous studies on the risk disclosures influence on the financial performance of banks conducted by Popova, Georgakopoulo, Sotiropoulus, and Vasileiou (2013), Adeusi, Oluwafemi, Akeke, Wasrael, Adebesi, Simeon, Oladunjoye and Olawale (2013) concluded that the risk disclosures positive effect on financial performance. Nahar, Azim and Jubb (2016) prove that the risk disclosure negatively affects the banks' financial performance.

A selection of risk disclosure as a mediating variable in addition based on the research above, it is due to the many issues related to transparency and publication of financial statements that occur in a banks in Indonesia. The problems associated to transparency and publication of financial statements in the company's independent directors that should encourage more attention to the quality of risk disclosure. Therefore, this study was shown to examine the effect of competition and Independent Commissioner of the financial performance of the mediator variable risk disclosure. Based on the description above, this study was conducted by the banking industry in Indonesia.

1.1 Research Questions

Based on the introduction above, the research questions are as follows:

1. Does competition affect the financial performance?
2. Does the proportion of Independent Commissioner effect on financial performance?
3. Does risk disclosure level affect the financial performance?
4. Does competition affect the level of risk disclosure?
5. Does the proportion of Independent Commissioner affect the risk disclosure level?
6. Does risk disclosure mediates the relation between competition and financial performance?
7. Does risk disclosure mediates the relation between independent directors and financial performance?

2. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

2.1. Agency Theory

According to Jensen and Meckling (1976), agency theory is a contractual relationship between the principal and the agent to perform the activity by providing authority to the agent. Agency problems arise when one or more principal employs another agent to provide a service and delegates decision-making authority to the agent. Managers as agents have an obligation to maximize the welfare of the owners. On the other hand, the managers also have an interest to maximize their own welfare. Thus, there are two different interests in a company, in which each of the parties that there are trying to achieve or maintain the level of prosperity of each corresponding to the desired. The interest differences between principal and agent are called agency problem, one of which is caused by the asymmetry of information.

The information asymmetry is information that is not balanced due to the unequal distribution of information between principal and agent. The managers as a manager of the company more aware of internal information and the company's prospects in the future compared to the shareholders. In addition, the managers have an opportunistic attitude that agents put own interests than the interests of the principal (Sarwoko, 2011).

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To avoid the asymmetric relationship, a university needed a surveillance system that is the concept of Corporate Governance which aims to turn the banking industry for better (Lokuwaduge and Armstrong, 2014). Implementation of Corporate Governance based on agency theory, it can be explained by the relationship between management and owners of the college. The management as the agents who have responsibility to optimize the benefits that can increase the bank performance (Srairi, 2015).

2.2. Competition, Proportion of Independent Commissioner, Risk Disclosure, and Financial Performance.

A financial performance assessment is one way that can be done by the management in order to meet its obligations to funders and also to achieve the goals set by the company. Profitability analysis can be used to measure the performance of companies that profit motives (El-Chaarani, 2014). The ratio of Return on Assets (ROA) provides information on how efficiently the bank in conducting its business activities. It is because ROA indicates how much profit can be earned on average about every Rupiah asset (Siamat, 2005).

In order to improve financial performance on an ongoing basis of rivalry or competition between banks will change the banks' behavior to do business. The competitive rivalry will utilize its power to reduce the banks that are weak. Therefore, these banks will be motivated to improve its financial performance (Qi, Wu, and Zhang, 2000).

The banking industry is one of the industries that has a high regulated (Oorschot, 2009). Therefore, it required an oversight, management because of better adherence to regulations. One form of the supervision, namely the existence of Independent Commissioner is one of the main keys in Corporate Governance. The Board of Independence Commissioners is a key element in the implementation of Corporate Governance (Alexandrina, 2013). The Independent Commissioner is able to monitor and control the management of opportunistic behavior (Jensen and Meckling, 1976).

From some research results related to the competition, the proportion of Independent Commissioners and financial performance inconsistency, it is suspected by other variables that can affect the relationship. These variables are intervening variable of risk disclosures. The risk disclosure placement as a mediating variable based on that in the banking industry risk disclosure was mandatory disclosure. The important risk's information in the banking industry reported to the public which aims to determine the risk profile. The risk information is also useful to determine the risk profile of the company, reducing the asymmetry of information, and determine the investment decision of the portfolio (Abraham and Cox, 2007; Hassan, 2009).

Thereby, improving the financial performance due to increased transparency of information one of which is the risk disclosure. The risk disclosure is expected to provide assurance to the public that the bank managed in a transparent and accountable so that would increase the social credibility that ultimately improve the financial performance.

2.3 Hypotesis

2.3.1 Competition and Financial Performance

The competition in the business world is a competition faced by the company to enter into a similar business industry. Every industry has a different level of ease and difficulty for newcomers to be able to enter it. It is also associated with the interaction of market members or more are aggregated (Widyastuti et al., 2013).

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The monopoly market or imperfect competition, market trigger the company to improve the company's financial performance in order to create a sense of customer confidence (Mulyaningsih, (2011). This theory is supported by several studies including the research of Widyastuti et al. (2013). It showed that with increased competition among banks has the potential to encourage the banking business has become more competitive and improve the efficiency and soundness of banks. Based on the explanation above, the obtained hypothesis as follows,

H1: The competition has a positive effect on financial performance.

2.3.2 Proportion of Independent Commissioner of the Financial Performance

Independent Commissioner can act as a mediator in disputes between internal managers and supervise the policies of the board of directors as well as advising the board of directors (El-Chaarani, 2014). The Independent commissioner is a member of the Board of the Commissioners who do not have the financial, management, share ownership and / or related to members of the Board of the Commissioners, Board of the Directors and / or the controlling shareholders or other relationship which can affect its ability to act independently.

Based on agency theory, the presence of independent directors is a mechanism that is expected to conduct surveillance and control of conflicts of interest between the controlling shareholders and minority shareholders resulting inefficiencies in the management of the company. The decisions taken by the management to be relevant to the purpose were to maximize the performance of the company. This theory is supported by several researchers, among others, research Choi et al. (2006) and Pratama (2011). It stated that the Independent Commissioner significant and positive impact on financial performance as measured by ROA. They argued that by increasing the board size and to hire the professional of the Independent Commissioner company will benefit from the expertise and experience possessed by them. It could be formulated hypothesis as follows:

H2 : The proportion of Independent Commissioner has a positive effect on financial performance.

2.3.3 Risk Disclosure to Financial Performance

The companies are required to disclose all the company's financial performance information that is accurate, timely and transparent (Tjager, 2003). The more transparent risk disclosures, it will reduce asymmetric information and effort to increase the performance and value of the company. The financial performance is essentially required as a tool to gauge the sound company. The assessment of financial performance is one factor which is important for stakeholders for future decision making.

Permatasari and Retno (2014) have revealed that the positive relation between risk disclosure of corporate performance. Based on the explanation above, the obtained hypothesis as follows,

H3: Risk Disclosure has a positive effect on financial performance

2.3.4 Competition, Risk Disclosure and Financial Performance

According to Mokhtar and Mellet (2013, the competition associated with the ownership cost theory that is the cost of competitive disadvantage and barriers to entry. So, the companies are less motivated to provide risk disclosures. While based barriers to entry, the accounting researchers use the amount of capital investment due to appear in the annual report (Widyastuti, 2013). When a company will enter the level of competition is very high, then the required assets as initial capital investment to overcome the barriers

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to market entry (Setiawan, 2011). Thus, the company is protected by high barriers to entry that are more likely to provide commercially sensitive information such as risk disclosure. This theory is supported by research Mokhtar and Mellet (2013) which stated that the competition is significant and positive impact on the risk disclosure.

The risk disclosure is predicted to impact directly between competition and financial performance due to their potential to encourage competition become more competitive banking business. The companies that have a high capital investment are more likely to be commercially sensitive information such as risk disclosure. The greater capital owned by a company, the better its financial performance. So, the more transparent information, it will be disclosed.

Based on the explanation above, it can be concluded that the competitive firms are not afraid of a potential competitor. The hypothesis can be put forward are as follows,

H4: Competitions has a positive effect on risk disclosure

H6: Risk disclosure mediates the relationship between competition and financial performance

2.3.5 Proportion of Independent Commissioner of the Risk Disclosure and Financial Performance

The function of Independent Directors in the agency theory is to convince the management to fulfill and protect the interests of shareholders (Suhardjanto *et al*., 2012). Therefore, the commissioner from outside who are not affiliated with the company expected to provide independent advice to the members of its commissioners. In addition, the independent directors could improve the reputation associated with more effective control that significantly affect the compliance of corporate disclosure.

The companies deemed necessary to provide information on the proportion of the Independent Board. Because the company to the level of a high proportion of Independent Commissioners will usually receive demands to provide more information in order to balance the risk level of their personal reputation. Thus, a higher level of disclosure expected from a company with the proportion of independent board was higher (Oliveira *et al.*, 2011).

To reduce agency costs, the company with the proportion of Independent Board higher would tend to disclose more information. This theory is supported by research Mokhtar and Mellet (2013) which stated that an Independent Commissioner significant and positive impact on the risk disclosure.

The risk disclosure is predicted to impact directly between Independent Directors and financial performance because of the presence of an independent party is expected to play a role of neutral and do not have certain business dealings because of its proximity to the management. The neutrality proficiency level becomes important when linked with the principal-agent conflicts of interest and the principal minority-majority, and can reduce asymmetric information between the parties to the risk disclosures more transparent, so as to improve the company's financial performance.

Based on the explanation above, the obtained hypothesis as follows,

H5: Independent Commissioner has a positive effect on the risk disclosure

H7: Risk disclosure mediates the relation between Independent Commissioner and financial performance.

3. RESEARCH METHOD

The population in this study was all banking companies listed in Indonesia Stock Exchange in 2013-2015 which has a total of 39 companies. The amount was divided into

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several categories according to the type of ownership and scope of its operations. The banking companies selected for the banking industry were required to disclose its risk compared with other industries listed on the Indonesia Stock Exchange.

The sampling was done by a purposive sampling method with the aim to obtain representative samples in accordance with the criteria specified. The research sample was 35 annual report banking companies listing on the Stock Exchange have been selected through purposive sampling with the following criteria:

1. Banks listing or listed on the Indonesian Stock Exchange (BEI) 2013-2015.
2. Still in operation until 2015
3. The companies published annual report for the period of 2013-2015 in the websites of the Indonesia Stock Exchange (IDX).

3.1.Measurement Variable

a. Competition/ Barriers to Entry (BE)

This variable examined the competition by using barriers to entry (Mokhtar and Mellett, 2013). The barriers to entry was a structure element associated with the barriers for companies that have the potential to enter the market (Septiani, 2005).

b. Proportion of Independent Commissioner (KI)

The commissioner was an Board Independent member who has no ties to the management company so that the presence of Independent Directors, supervisory and control functions were performed by the Board Independent Directors against expected to be more objective and precise.

$$\mathbf{KI} = \frac{\boldsymbol{Number\ of\ Independent\ Commissioner}}{\boldsymbol{Total\ of\ Commissioners'member}}\ \boldsymbol{x}\ \mathbf{100\%}$$

c. Financial Performance

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

d. Risk Disclosure (RD)

Referring to the research Suhardjanto et al. (2012), the risk disclosure level was measured by using scoring techniques. The score "1" was given to the items disclosed by the company's risk and a score "0" was given to items that were not disclosed by the company.

$$RD = \frac{\sum SCORE}{\sum MAX} \times 100\%$$

Description equation:

RD : Score of Risk disclosure
SCORE : Score of risk items disclosed by the company
MAX : Total risk items that must be disclosed company

3.2. Data Analysis Method

3.2.1. Regression Analysis

This study used regression 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). The regression equations as follows:

ROA = A + β1 BE+ β2 KI + e equation 1
RD = α +β1 BE+ β2 KI + e equation 2

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ROA = A + β1 RD equation 3

ROA = A + β1 BE+ β2 KI + β2 RD +e equation 4

Information :

ROA : Return on Assets as a proxy for financial performance
RD : Risk Disclosure as a proxy for risk disclosure
α : Constant regression equation
β : Independent variable coefficients
BE : Barriers to Entry as a proxy for competition
KI : Independent Commissioner
e : Standard error, the error rate estimator in research

3.2.2. Path Analysis

According to Ghozali (2011: 249), path analysis is an extension of the multiple linear regression analysis. Path Analysis is the use of regression analysis to estimate the quality of the relation between predefined variables. The relation has been established with a model based on a theoretical foundation.

ROA = A + β1 BE+ β2 KI + β3 RD + e equation 4

Information :

ROA : Return on Assets as a proxy for financial performance
RD : Risk Disclosure as a proxy for risk disclosure
α : Constant regression equation
β : Independent variable coefficients
BE : Barriers to Entry as a proxy for competition
KI : Independent Commissioner
e : Standard error, the error rate estimator in research

4. RESULTS AND DISCUSSION

4.1. Descriptive Analysis

Descriptive statistics in Table 2, it showed that the level of competition (BE) in Indonesia has an average value of 4.6801 of maximum competition points studied were 5.92 points. This meant that the level of competition in Indonesia was quite high because more than half of the maximum points of the study. The lowest competition level was 2.87.

Table 2 Descriptive Statistics

Variables	N	MIN	MAX	MEAN	STD.DEVIATION
BE	105	2.87	5.92	4.6801	0.8299
KI	105	0.5	0.72	.5907	0.08004
RD	105	.6818	1	0.8235	0.08719
ROA	105	0.07	5.42	2.2295	1.18298

Information :

ROA : *Return on Assets* as a proxy for financial performance
RD : R*isk Disclosure* as a proxy for risk disclosure
BE : *Barriers to Entry* as a proxy for competition
KI : Independent Commissioner

Independent Commissioner (KI) has an average value of 59.07%, which indicates that the banks in Indonesia meet Corporate Governance guidelines as it has a number of

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Independent Directors of more than 50% of all existing board members, while the highest value of Independent Directors of the research data was 75% and the lowest rate of 50%. Variable intervening Risk disclosure (RD) showed the average value at 0, 8325, while The highest value was 1.00 and the lowest value was 0.68.

The soundness of banks (ROA) in Indonesia has an average value of 2.2955 of the maximum points of the bank that was 5.42 points. This meant that the level of sound bank in Indonesia was still lacking because on the average score of less than half the maximum points of the study. The lowest bank soundness was 0.07.

4.2. Hypothesis Testing Results

4.2.1. Testing Results Effect of Competition and Independent Commissioner Proportion to the Financial Performance.

The results of hypothesis used statistical data processing program with multiple linear regression analysis were shown in Table 3. Based on the results of the regression analysis in Table 3 values obtained coefficient was 1.933 forα, 0.262 to β1, β2 -5.498 for, and 2,865 for β3. Then the regression equation as follows:

ROA = 1.933 + 0.262 *BE* - KI 5.498 + 0.905 + 2.865 RD

Based on the analysis by using SPSS version 20 the table displays 4:17, the results of multiple regression analysis of the competition variable (BE) has a regression coefficient of 0.262 with 0.050 level significant equal to α = 0.05. These results indicate that every 1 percent increase competition (BE) would raise the financial performance of 0.262 and when seen from the significant level of competition has an influence on the financial performance *(H1 Accepted).*

Table 3 Regression Analysis

ROA = A + β1 *BE*+ β2 KI +β3 RD +*e*

	Predicated Sign	Unstandardized Beta	Standardized Beta	Sig
Constant	+	1,933		0.114
BE	+	0.262	0.184	0,050
KI	-	-5.498	-0.372	0,000
RD	+	2,865	0,211	0,029
N		105		
R square		.181		
e = √1 - R2		0.905		
Adj. R2		.157		

** The significance level of 5%, based on the one-tailed test
BE - Competition
KI - Commissioner
RD - Risk Disclosure

Table 3 showed the results of an Independent Commissioner variable regression analysis (KI) has a regression coefficient of -5.498 with a significance level of 0,000 was smaller than α = 0.05. These results indicated that each increase of 1 per cent of independent directors (KI) would reduce the financial performance of -5.498 and when viewed from the level of significance of the Independent Directors do not have an impact on financial performance *(H2 Rejected).*

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4.2.2. Testing Results Effect of Competition and Proportion of Independent Commissioner of the Risk Diclosure.

Table 4 Regression Analysis

RD = α + BE β1 + β2 KI + e				
	Predicated Sign	Unstandardized Beta	Standardized Beta	Sig
Constant	+	0.581		0,000
BE	+	0,022	.207	0,030
KI	+	0.254	.233	0,015
N		105		
R square		0.107		
$e = \sqrt{1 - R2}$		0.945		
Adj. R2		8.9%		

** The significance level of 5%, based on the one-tailed test
BE - Competition
KI – Commissioner

Table 3 showed the results of regression analysis of the Risk Disclosure (RD) has a regression coefficient of 2.865 to 0.029 significance level of less than α = 0.05. These results indicated that every 1 percent increased in the Risk Disclosure (RD) would raise the financial performance of 2,865 and when seen from the significant level of risk disclosure have an impact on financial performance *(H3 Accepted).*

Based on the results of the regression analysis in Table 4, the values obtained coefficient was 0.581 for α, 0,022 to β1 and β2 0.254. Then the regression equation as follows:

$$\mathbf{RD = 0.581 + 0.022\ BE\ KI + 0.254 + 0.945}$$

Based on the analysis by using SPSS version 20 the table displays 4, the results of multiple regression analysis of the competition variable (BE) has a regression coefficient of 0.022 with a significance level of 0,030 was smaller than α = 0.05. These results indicate that every 1 percent increase competition (BE) would increase the risk of disclosure of 0.022 and when seen from the significant level of competition has an influence on the risk disclosure (H4 Accepted).

Table 4 showed the results of an Independent Commissioner variable regression analysis (KI) has a regression coefficient of 0.254 to 0.015 significance level of less than α = 0.05. These results indicated that each increase of 1 per cent of Independent Directors (KI) would increase the risk disclosure of 0.254 and when viewed from the level of significance of the Independent Commissioner have an impact on risk disclosure *(H5 Accepted).*

4.2.3. Path Analysis Result

Based on the path analysis of image 2, the competition could have a direct impact to financial performance and may also influence indirectly that was of competition to the risk disclosures (as intervening) and then to financial performance (ROA).

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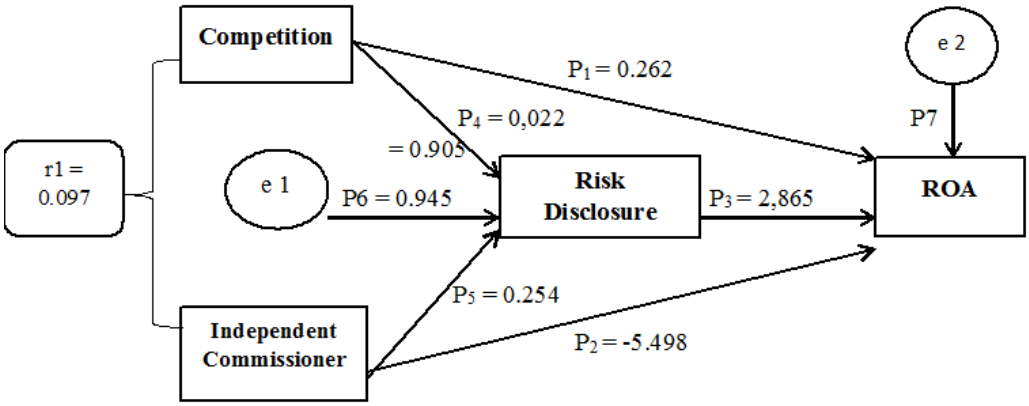
Figure 1
Path Analysis of Competition, Independent Commissioner, Risk Disclosure and Financial Performance



Source: Secondary Data were Processed, 2015

The amount of direct influence was 0.262, whereas the effect of indirectly, namely:

Competition = (0.022) x (2,865) = 0.6303
Total effect Competition = 0.262 + (0.022 x 0.211) = 0.2850

The effects of mediation shown by multiplying (x P3,P4) were either significant or not significant, were tested with the Sobel test as follows:

*Sp*4P3 = √ *p*32 Sp42 + p42 + Sp42 Sp32 Sp32
= √ $(2,865)^2$ (0,010) 2 + (0,022) 2 (1,292) 2 + (0,010) 2 (1,292) 2
= √ (0.0008) + (0.0008) + (0.0001)
= √ 0.0017 = 0.0412

Based on the results, the value of t statistics Sp4p3 mediation effect was as follows:

$$t = \frac{p4p3}{Sp4p3} = \frac{0,6303}{0,0412} = 15,298$$

Therefore, the 15.298 t value was greater than t table with a significant level of 0.05 was equal to 1.96, it could be concluded that the coefficient of 0.6303 mediations which meant there's a significant mediating effect.

Figure 2, it showed the results of that Independent Commissioners could not have direct impact to financial performance, but could affect indirectly that was of Independent Commissioner to the risk disclosures (as intervening) and then to financial performance (ROA). The amount of direct influence was -5.498, while not directly influence, namely:

Independent Commissioner = (0.254) x (2,865) = 0.7277
The total effect Independent Commissioner = -5.498 + (0.022 x 0.211) = -4.7703

The effect of mediation shown by multiplication (P5 x P3) was either significant or not significant, were tested with the Sobel test as follows:

*Sp*5p3 = √ *p*32 Sp52 + p52 + Sp52 Sp32 Sp32
= √ $(2,865)^2$ (0.102) 2 + (0.254) 2 (1.292) 2 + (0.102) 2 (1.292) 2
= √ (0.0854) + (0.1077) + (0.0174)

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$= \sqrt{0.2105} = 0.0459$

Based on the results, the value of t statistics Sp4p3 mediation effect was as follows:

$$t = \frac{p4p3}{Sp4p3} = \frac{0{,}7277}{0{,}0459} = 15{,}854$$

Therefore, the t value was 15.854 smaller than t table with a significant level of 0.05 was equal to 1.96, it could be concluded that the coefficient of 0.7277 mediations which meant there's significant mediating effect.

4.2.4. Discussion

These results indicated that the competition was a significant positive effect on the financial performance or in other words the research hypothesis **H1 was accepted**. This showed that the level of competition between one company with another company forced the company to improve its financial performance.

These results indicate that the Independent Commissioner was not a significant negative effect on the financial performance or in other words the research **hypothesis H2 was rejected**. This showed that the Independent Commissioner did not understand and carry out the task as an independent party to supervise, direct, and evaluate the implementation of the Corporate Governance and strategic policy of the bank so that the role of Independent Directors in banks in Indonesia have not been working properly.

These results indicated that the risk disclosures significant positive effect on the financial performance or in other words **research hypothesis H3 were accepted**. This showed that companies that disclose risks accurate and transparent manner, would improve the performance and value of the company.

Risk disclosure will be an attempt to reduce asymmetric information useful to investors in decision making in the future. The companies that have good financial performance would not hesitate to reveal all information about the company (Permatasari, 2014).

These results indicated that the competition was a significant positive effect on risk disclosure, or in other words **H4 research hypothesis was accepted**. This showed that the competitors were protected by entry barriers (capital investment) was high would be more transparent in uttering company information.

This study suggested that the risk disclosures mediated the relation between competition and financial performance. From the analysis of the table 4 lines on the picture directly influence the competition (BE) on financial performance (ROA) was 0.262, while the indirect effect of competition to the risk disclosures (as intervening) and to the financial performance was 0.6303. Sobel test calculation, the 15.298 t value was greater than t table with a significant level of 0.05 was equal to 1.96. It could be concluded that a significant coefficient 0.6303 mediation which means there was the influence of mediation or in other words **H5 research hypothesis was accepted.**

These results indicated that the Independent Commissioner significant positive effect on risk disclosure, or in other words **H6 research hypothesis was accepted**. This showed that the greater number of Independent Commissioner, the level of scrutiny and pressure on the better management that encourages management more transparent in disclosing risks of the company.

The magnitude of the direct influence of Independent Commissioner (KI) on financial performance (ROA) was -5.498, while the indirect influence of Independent

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Directors to the risk disclosures (as intervening) and to the financial performance was 0.7277. Sobel test calculation, the 15.854 t value was smaller than t table with a significant level of 0.05 was equal to 1.96, it could be concluded that a significant coefficient 0.7277 mediation which means there was the influence of mediation or in other words **H7 research hypothesis was accepted.**

The risk disclosure could also directly influence between independent directors and financial performance because of the presence of an independent party was expected to play a role of neutral and did not have certain business dealings because of its proximity to the management. The neutrality proficiency level becomes important when linked with the principal-agent conflicts of interest and principal minority-majority, and could reduce asymmetric information between the parties to the risk disclosures more transparent, so as to improve the company's financial performance.

5. CONCLUSION, LIMITATION AND SUGGESTION

5.1.Conclusion

This study examined the effect of competition and Independent Directors on the financial performance at risk disclosures as an intervening variable. Based on the discussion of the study result, the research concluded as follows:

1. Competition and disclosure risk shows a positive effect on financial performance, while the Independent Commissioner shows a negative effect on the financial performance.
2. Competition and Independent Commissioner shows a positive effect on the risk disclosure.
3. Risk disclosure mediates the relation between competition and financial performance, as well as the relation between Independent Commissioner and financial performance.

5.2.Limitations

Based on this research, the researcher has limitations in conducting research, including the following:

1. Variable measurement of financial performance was only measured in one variable, not comparing with other variables such as ROE or CAMELS analysis.
2. Measurement of risk disclosure variables in this study did not consider the relevance weighting disclosure items. If the items were weighted relevance disclosure of certain procedures, may provide the results of measurements of different risk disclosures and the results of different studies.

5.3.Suggestion

Based on this research, the authors provide suggestions for further research as follows:

1. Future studies could add another variable to measure the financial performance of banks.
2. Subsequent research suggested giving more weight to the relevance of the risk disclosure item.

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2.7 - Competition, Independent

by Leon Akbar

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Competition, Independent Commissioner, Risk Disclosure and Financial Performance

Review of Integrative Business & Economics Research

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ABSTRACT

This study aimed to provided empirical evidence of the competitive effects and independent directors on the financial performance, with risk disclosure as an intervening variable. This study used banking companies data listed on the Stock Exchange in 2013-2015, with criteria to publish the financial statements of December 31 during 2013-2015. The samples were obtained by purposive sampling. The data were analyzed by multiple regression analysis. The results of the study shows (1) Competition shows a positive effects on financial performance, (2) Independent commissioner shows a negative effects on financial performance, (3) Risk disclosure shows a positive effects on financial performance, (4) Competition shows a positive effects on risk disclosure, (5) Independent commissioner shows a positive effects on risk disclosure, (6) Risk disclosure mediates the relationship of competition and the financial performance, (7) Risk disclosure mediates the relation between independent commissioners and financial performance.

Keywords : Competition, Independent Commissioner, Risk Disclosure, Return On Asset (ROA)

1. INTRODUCTION

This study aimed to examine the effect of competition and independent directors on the financial performance at risk disclosures as an intervening variable in the Banking industry company listed on the Indonesia Stock Exchange. The financial performance is a tool to assess the soundness of banks. It is an early warning system for the performance of the current bank and prospects for the future in developing the strategy, thus that banks can create a sound banking system and continuous (El-Chaarani, 2014). In a good condition a bank will be able to conduct normal banking operations and able to meet all its obligations properly in accordance with applicable banking regulations (Kashmir, 2008). Meanwhile, in Indonesia majority ownership is owned by the family. This causes the management of the company in accordance with the interests of the family. This will cause influence to the company's performance. This affirmation is evidenced by Huei, Ken, Kwong and Philip (2012) the influence of family ownership on performance.

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The Bank Indonesia issued new regulations on the procedure for the implementation of the bank rate, namely Bank Indonesia Regulation Number: 13/1 / PBI / 2011 about Commercial Bank Rating. The one used in this study is the level of profitability. This study used a measure of financial performance, with the profitability ratio of Return on Assets (ROA). The higher of ROA showed that banks are more efficient by using its assets to generate earnings. The ROA is used by a proxy measurement of financial performance because this ratio is less affected discretionary item in the financial statements (Barber and Lyon, 1996). The ROA is the ratio between profit after tax to total assets, ROA, the greatest Return on Assets of the company makes the rate of the greatest Return on Assets (El-Chaarani, 2014). The following table showed the level of ROA in the banking industry listed in Indonesia Stock Exchange for the period from 2013-2015.

Table 1 The Return on Assets (ROA)

No.	Year	Bank Code	Bank Name	ROA
1		READ	Bank Capital Indonesia Tbk	0.84
2		BKSW	Bank Kesawan Tbk	0.46
3		BII	Bank Internasional Indonesia Tbk	1.13
4	2013	BSIM	Bank Sinar Mas Tbk	1.07
5		INPC	Bank Artha Graha Indonesia Tbk	0.72
6		Amcor	Kentjana Windu Bank Internasional Tbk	0.96
7		NOBU	Nobu Bank Internasional Tbk	1.13
8		BABP	Bank ICB Bumi Putra Tbk	0.09
9		BAEK	Bank Ekonomi Raharja Tbk	1.02
10		BCIC	Bank Mutiara Tbk	1.06
11	2014	BEKS	Pundi Bank Indonesia Tbk	0.98
12		BKSW	Bank Kesawan Tbk	0.81
13		BMAS	Maspion Bank Indonesia Tbk	1.00
14		INPC	Bank Artha Graha Indonesia Tbk	0.66
15		BAEK	Bank Ekonomi Raharja Tbk	1.19
16	2015	BKSW	Bank Kesawan Tbk	0.07
17		BMAS	Maspion Bank Indonesia Tbk	1.11

From Table 1 it can be seen that there are many banks with lower ROA and shows the presence of problems related to the financial performance of banks in Indonesia. This phenomenon showed that the problem of financial performance in Indonesia is important for the investigation.

In order to improve the financial performance on an ongoing basis of rivalry or competition between banks will change the banks' behavior to do business. According to Claessens and Leaven (2004), the presence of high competition in the financial sector is to boost the product efficiency, the financial product quality, and the innovation level. It was evidenced by Widyastuti *et al.* (2013) who found that the competition is a significant positive impact on financial performance.

Besides the competition, in order to improve the financial performance on an ongoing basis of corporate governance concept is also an important concept. It was in

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accordance with the opinion of Saad (2010) who stated that companies that practice corporate governance will have image improvement and financial performance improvement. This statement was supported by the research Klapper and Love (2002) who found a significant positive relation between corporate governance and financial performance as ROA measurement.

Corporate Governance in this study only focused on the Independent Commissioner. Independent Commissioner has chosen because it does not have the interest, objective, a duty to supervise and control the company directly. Thus, it can minimize the agency cost that may occur due to interest differences (El-Chaarani, 2014).

Research relating to competition and financial performance conducted by Mokhtar and Mellet (2013) in Egypt that proved there is a positive effect of competition on the financial performance. This proof increased the competition that would increase the company's revenue and financial performance. However, research of Yahaya (2015) in Nigeria proved that the competition can decrease the financial performance. It was presumed by the weakness of competing meal that will reduce bank earnings to lower income.

Relating to the existence of Independent Commissioners and financial performance, a research conducted by Haque, Islam, and Ahmed (2013) in Bangladesh, Stepanofa and Ivanstova in Ukraine (2010) proved that there is a positive effect of the proportion of Independent Commissioner on the bank financial performance. The different proof by Mehran, Morrison, and Shapiro (2011) is no influence of the Independent Commissioner proportion of financial performance.

From some research results related to the competition, the proportion of Independent Commissioners and financial performance inconsistency, it is suspected by other variables that can affect the relationship. These variables are intervening variable of risk disclosures. The risk disclosure placement as a mediating variable based on that in the banking industry risk disclosure was mandatory disclosure. The important risk's information on the banking industry reported to the public which aims to determine the risk profile.

A compliance of risk disclosures is one aspect of reducing information asymmetry (Tehranian, Cornett, Marcus, and Saunders, 2006). Koehn and Santomero (1980) contend that the increase of adherence to the risk disclosures and investors will get a higher return. It is because as a compensation for the utility to meet the regulations. Furthermore, the risk disclosure is useful to monitor risks and detect potential problems so that they can take early action and the problems do not occur (Linsley and Shrives, 2006).

The risk disclosure is also useful to determine the risk profile of the company, reducing the asymmetry of information, and determine the investment decision of the portfolio (Abraham and Cox, 2007). In Indonesia, the risk disclosure by the banking industry is a mandatory disclosure that explicitly stipulated in Bank Indonesia Regulation Number: 11/25 / PBI / 2009 regarding the amendment of Bank Indonesia Regulation No. 5/8 / PBI / 2003 on Risk Management for Commercial Banks. Hence, the important compliance with regulation of risk disclosure can reduce business risk and investment risk to society.

Research Corporate Governance on the risk disclosure by proxy Independent Commissioner proved mixed results. Suhadjanto *et al.* (2012) found that the proportion of Independent Commissioner's outcome did not affect the risk disclosures. It was in contrast with the research results of Abraham and Cox (2007) in the United States; Olivera *et al.* (2011) in Portuguese; and Mokhtar and Mellet (2013) in Egypt. It showed that Independent Commissioner effects the positive risk disclosure. Thus, there are

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significant proportions of Independent Commissioner against to risk disclosure. Then, research related to competition with the risk disclosure made by Mohktar and Mellet (2013) showed a positive influence of competition on the risk disclosure.

The results of previous studies on the risk disclosures influence on the financial performance of banks conducted by Popova, Georgakopoulo, Sotiropoulus, and Vasileiou (2013), Adeusi, Oluwafemi, Akeke, Wasrael, Adebesi, Simeon, Oladunjoye and Olawale (2013) concluded that the risk disclosures positive effect on financial performance. Nahar, Azim and Jubb (2016) prove that the risk disclosure negatively affects the banks' financial performance.

A selection of risk disclosure as a mediating variable in addition based on the research above, it is due to the many issues related to transparency and publication of financial statements that occur in a banks in Indonesia. The problems associated to transparency and publication of financial statements in the company's independent directors that should encourage more attention to the quality of risk disclosure. Therefore, this study was shown to examine the effect of competition and Independent Commissioner of the financial performance of the mediator variable risk disclosure. Based on the description above, this study was conducted by the banking industry in Indonesia.

1.1 Research Questions

Based on the introduction above, the research questions are as follows:

1. Does competition affect the financial performance?
2. Does the proportion of Independent Commissioner effect on financial performance?
3. Does risk disclosure level affect the financial performance?
4. Does competition affect the level of risk disclosure?
5. Does the proportion of Independent Commissioner affect the risk disclosure level?
6. Does risk disclosure mediates the relation between competition and financial performance?
7. Does risk disclosure mediates the relation between independent directors and financial performance?

2. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

2.1. Agency Theory

According to Jensen and Meckling (1976), agency theory is a contractual relationship between the principal and the agent to perform the activity by providing authority to the agent. Agency problems arise when one or more principal employs another agent to provide a service and delegates decision-making authority to the agent. Managers as agents have an obligation to maximize the welfare of the owners. On the other hand, the managers also have an interest to maximize their own welfare. Thus, there are two different interests in a company, in which each of the parties that there are trying to achieve or maintain the level of prosperity of each corresponding to the desired. The interest differences between principal and agent are called agency problem, one of which is caused by the asymmetry of information.

The information asymmetry is information that is not balanced due to the unequal distribution of information between principal and agent. The managers as a manager of the company more aware of internal information and the company's prospects in the future compared to the shareholders. In addition, the managers have an opportunistic attitude that agents put own interests than the interests of the principal (Sarwoko, 2011).

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To avoid the asymmetric relationship, a university needed a surveillance system that is the concept of Corporate Governance which aims to turn the banking industry for better (Lokuwaduge and Armstrong, 2014). Implementation of Corporate Governance based on agency theory, it can be explained by the relationship between management and owners of the college. The management as the agents who have responsibility to optimize the benefits that can increase the bank performance (Srairi, 2015).

2.2. Competition, Proportion of Independent Commissioner, Risk Disclosure, and Financial Performance.

A financial performance assessment is one way that can be done by the management in order to meet its obligations to funders and also to achieve the goals set by the company. Profitability analysis can be used to measure the performance of companies that profit motives (El-Chaarani, 2014). The ratio of Return on Assets (ROA) provides information on how efficiently the bank in conducting its business activities. It is because ROA indicates how much profit can be earned on average about every Rupiah asset (Siamat, 2005).

In order to improve financial performance on an ongoing basis of rivalry or competition between banks will change the banks' behavior to do business. The competitive rivalry will utilize its power to reduce the banks that are weak. Therefore, these banks will be motivated to improve its financial performance (Qi, Wu, and Zhang, 2000).

The banking industry is one of the industries that has a high regulated (Oorschot, 2009). Therefore, it required an oversight, management because of better adherence to regulations. One form of the supervision, namely the existence of Independent Commissioner is one of the main keys in Corporate Governance. The Board of Independence Commissioners is a key element in the implementation of Corporate Governance (Alexandrina, 2013). The Independent Commissioner is able to monitor and control the management of opportunistic behavior (Jensen and Meckling, 1976).

From some research results related to the competition, the proportion of Independent Commissioners and financial performance inconsistency, it is suspected by other variables that can affect the relationship. These variables are intervening variable of risk disclosures. The risk disclosure placement as a mediating variable based on that in the banking industry risk disclosure was mandatory disclosure. The important risk's information in the banking industry reported to the public which aims to determine the risk profile. The risk information is also useful to determine the risk profile of the company, reducing the asymmetry of information, and determine the investment decision of the portfolio (Abraham and Cox, 2007; Hassan, 2009).

Thereby, improving the financial performance due to increased transparency of information one of which is the risk disclosure. The risk disclosure is expected to provide assurance to the public that the bank managed in a transparent and accountable so that would increase the social credibility that ultimately improve the financial performance.

2.3 Hypotesis

2.3.1 Competition and Financial Performance

The competition in the business world is a competition faced by the company to enter into a similar business industry. Every industry has a different level of ease and difficulty for newcomers to be able to enter it. It is also associated with the interaction of market members or more are aggregated (Widyastuti et al., 2013).

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The monopoly market or imperfect competition, market trigger the company to improve the company's financial performance in order to create a sense of customer confidence (Mulyaningsih, (2011). This theory is supported by several studies including the research of Widyastuti et al. (2013). It showed that with increased competition among banks has the potential to encourage the banking business has become more competitive and improve the efficiency and soundness of banks. Based on the explanation above, the obtained hypothesis as follows,

H1: The competition has a positive effect on financial performance.

2.3.2 Proportion of Independent Commissioner of the Financial Performance

Independent Commissioner can act as a mediator in disputes between internal managers and supervise the policies of the board of directors as well as advising the board of directors (El-Chaarani, 2014). The Independent commissioner is a member of the Board of the Commissioners who do not have the financial, management, share ownership and / or related to members of the Board of the Commissioners, Board of the Directors and / or the controlling shareholders or other relationship which can affect its ability to act independently.

Based on agency theory, the presence of independent directors is a mechanism that is expected to conduct surveillance and control of conflicts of interest between the controlling shareholders and minority shareholders resulting inefficiencies in the management of the company. The decisions taken by the management to be relevant to the purpose were to maximize the performance of the company. This theory is supported by several researchers, among others, research Choi et al. (2006) and Pratama (2011). It stated that the Independent Commissioner significant and positive impact on financial performance as measured by ROA. They argued that by increasing the board size and to hire the professional of the Independent Commissioner company will benefit from the expertise and experience possessed by them. It could be formulated hypothesis as follows:

H2 : The proportion of Independent Commissioner has a positive effect on financial performance.

2.3.3 Risk Disclosure to Financial Performance

The companies are required to disclose all the company's financial performance information that is accurate, timely and transparent (Tjager, 2003). The more transparent risk disclosures, it will reduce asymmetric information and effort to increase the performance and value of the company. The financial performance is essentially required as a tool to gauge the sound company. The assessment of financial performance is one factor which is important for stakeholders for future decision making.

Permatasari and Retno (2014) have revealed that the positive relation between risk disclosure of corporate performance. Based on the explanation above, the obtained hypothesis as follows,

H3: Risk Disclosure has a positive effect on financial performance

2.3.4 Competition, Risk Disclosure and Financial Performance

According to Mokhtar and Mellet (2013, the competition associated with the ownership cost theory that is the cost of competitive disadvantage and barriers to entry. So, the companies are less motivated to provide risk disclosures. While based barriers to entry, the accounting researchers use the amount of capital investment due to appear in the annual report (Widyastuti, 2013) . When a company will enter the level of competition is very high, then the required assets as initial capital investment to overcome the barriers

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to market entry (Setiawan, 2011). Thus, the company is protected by high barriers to entry that are more likely to provide commercially sensitive information such as risk disclosure. This theory is supported by research Mokhtar and Mellet (2013) which stated that the competition is significant and positive impact on the risk disclosure.

The risk disclosure is predicted to impact directly between competition and financial performance due to their potential to encourage competition become more competitive banking business. The companies that have a high capital investment are more likely to be commercially sensitive information such as risk disclosure. The greater capital owned by a company, the better its financial performance. So, the more transparent information, it will be disclosed.

Based on the explanation above, it can be concluded that the competitive firms are not afraid of a potential competitor. The hypothesis can be put forward are as follows, **H4:** Competitions has a positive effect on risk disclosure

H6: Risk disclosure mediates the relationship between competition and financial performance

2.3.5 Proportion of Independent Commissioner of the Risk Disclosure and Financial Performance

The function of Independent Directors in the agency theory is to convince the management to fulfill and protect the interests of shareholders (Suhardjanto *et al*., 2012). Therefore, the commissioner from outside who are not affiliated with the company expected to provide independent advice to the members of its commissioners. In addition, the independent directors could improve the reputation associated with more effective control that significantly affect the compliance of corporate disclosure.

The companies deemed necessary to provide information on the proportion of the Independent Board. Because the company to the level of a high proportion of Independent Commissioners will usually receive demands to provide more information in order to balance the risk level of their personal reputation. Thus, a higher level of disclosure expected from a company with the proportion of independent board was higher (Oliveira *et al.,* 2011).

To reduce agency costs, the company with the proportion of Independent Board higher would tend to disclose more information. This theory is supported by research Mokhtar and Mellet (2013) which stated that an Independent Commissioner significant and positive impact on the risk disclosure.

The risk disclosure is predicted to impact directly between Independent Directors and financial performance because of the presence of an independent party is expected to play a role of neutral and do not have certain business dealings because of its proximity to the management. The neutrality proficiency level becomes important when linked with the principal-agent conflicts of interest and the principal minority-majority, and can reduce asymmetric information between the parties to the risk disclosures more transparent, so as to improve the company's financial performance.

Based on the explanation above, the obtained hypothesis as follows,

H5: Independent Commissioner has a positive effect on the risk disclosure

H7: Risk disclosure mediates the relation between Independent Commissioner and financial performance.

3. RESEARCH METHOD

The population in this study was all banking companies listed in Indonesia Stock Exchange in 2013-2015 which has a total of 39 companies. The amount was divided into

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several categories according to the type of ownership and scope of its operations. The banking companies selected for the banking industry were required to disclose its risk compared with other industries listed on the Indonesia Stock Exchange.

The sampling was done by a purposive sampling method with the aim to obtain representative samples in accordance with the criteria specified. The research sample was 35 annual report banking companies listing on the Stock Exchange have been selected through purposive sampling with the following criteria:

1. Banks listing or listed on the Indonesian Stock Exchange (BEI) 2013-2015.
2. Still in operation until 2015
3. The companies published annual report for the period of 2013-2015 in the websites of the Indonesia Stock Exchange (IDX).

3.1.Measurement Variable

a. Competition/ Barriers to Entry (BE)

This variable examined the competition by using barriers to entry (Mokhtar and Mellett, 2013). The barriers to entry was a structure element associated with the barriers for companies that have the potential to enter the market (Septiani, 2005).

b. Proportion of Independent Commissioner (KI)

The commissioner was an Board Independent member who has no ties to the management company so that the presence of Independent Directors, supervisory and control functions were performed by the Board Independent Directors against expected to be more objective and precise.

c. Financial %

Performance

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

d. Risk Disclosure (RD)

Referring to the research Suhardjanto et al. (2012), the risk disclosure level was measured by using scoring techniques. The score "1" was given to the items disclosed by the company's risk and a score "0" was given to items that were not disclosed by the company.

Description equation: Σ ×100%

RD : Score of Risk disclosure
SCORE : Score of risk items disclosed by the company
MAX : Total risk items that must be disclosed company

3.2. Data Analysis Method

3.2.1. Regression Analysis

This study used regression 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). The regression equations as follows:

ROA =A+β1 +β2KI+ equation 1

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ROA equation 3

ROA equation 4

Information :

ROA : Return on Assets as a proxy for financial performance
RD : Risk Disclosure as a proxy for risk disclosure
α : Constant regression equation
β : Independent variable coefficients
BE : Barriers to Entry as a proxy for competition
KI : Independent Commissioner
e : Standard error, the error rate estimator in research

3.2.2. Path Analysis

According to Ghozali (2011: 249), path analysis is an extension of the multiple linear regression analysis. Path Analysis is the use of regression analysis to estimate the quality of the relation between predefined variables. The relation has been established with a model based on a theoretical foundation.

ROA =A+β1 +β2KI+β3RD+ equation 4

ROA : Return on Assets as a proxy for financial performance
RD : Risk Disclosure as a proxy for risk disclosure
α : Constant regression equation
β : Independent variable coefficients
BE : Barriers to Entry as a proxy for competition
KI : Independent Commissioner
e: Standard error, the error rate estimator in research

4. RESULTS AND DISCUSSION

4.1. Descriptive Analysis

Descriptive statistics in Table 2, it showed that the level of competition (BE) in Indonesia has an average value of 4.6801 of maximum competition points studied were 5.92 points. This meant that the level of competition in Indonesia was quite high because more than half of the maximum points of the study. The lowest competition level was 2.87.

Table 2 Descriptive Statistics

Variables	N	MIN	MAX	MEAN	STD.DEVIATION
BE	105	2.87	5.92	4.6801	0.8299
KI	105	0.5	0.72	.5907	0.08004
RD	105	.6818	1	0.8235	0.08719
ROA	105	0.07	5.42	2.2295	1.18298

Information :

ROA : *Return on Assets* as a proxy for financial performance
RD : R*isk Disclosure* as a proxy for risk disclosure
BE : *Barriers to Entry* as a proxy for competition
KI : Independent Commissioner

Independent Commissioner (KI) has an average value of 59.07%, which indicates that the banks in Indonesia meet Corporate Governance guidelines as it has a number of

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Independent Directors of more than 50% of all existing board members, while the highest value of Independent Directors of the research data was 75% and the lowest rate of 50%. Variable intervening Risk disclosure (RD) showed the average value at 0, 8325, while The highest value was 1.00 and the lowest value was 0.68.

The soundness of banks (ROA) in Indonesia has an average value of 2.2955 of the maximum points of the bank that was 5.42 points. This meant that the level of sound bank in Indonesia was still lacking because on the average score of less than half the maximum points of the study. The lowest bank soundness was 0.07.

4.2. Hypothesis Testing Results

4.2.1. Testing Results Effect of Competition and Independent Commissioner Proportion to the Financial Performance.

The results of hypothesis used statistical data processing program with multiple linear regression analysis were shown in Table 3. Based on the results of the regression analysis in Table 3 values obtained coefficient was 1.933 forα, 0.262 to β1, β2 -5.498 for, and 2,865 for β3. Then the regression equation as follows:

ROA = 1.933 + 0.262 - KI 5.498 + 0.905 + 2.865 RD

Based on the analysis by using SPSS version 20 the table displays 4:17, the results of multiple regression analysis of the competition variable (BE) has a regression coefficient of 0.262 with 0.050 level significant equal to α = 0.05. These results indicate that every 1 percent increase competition (BE) would raise the financial performance of 0.262 and when seen from the significant level of competition has an influence on the financial performance *(H1 Accepted).*

Table 3 Regression Analysis

=A+ 1 + 2KI+ 3RD+

	Predicated Sign	Unstandardized Beta	Standardized Beta	Sig
Constant	+	1,933		0.114
BE	+	0.262	0.184	0,050
KI	-	-5.498	-0.372	0,000
RD	+	2,865	0,211	0,029
N		105		
R square		.181		
e = √1 - R2		0.905		
Adj. R2		.157		

** The significance level of 5%, based on the one-tailed test
BE - Competition
KI - Commissioner
RD - Risk Disclosure

Table 3 showed the results of an Independent Commissioner variable regression analysis (KI) has a regression coefficient of -5.498 with a significance level of 0,000 was smaller than α = 0.05. These results indicated that each increase of 1 per cent of independent directors (KI) would reduce the financial performance of -5.498 and when viewed from the level of significance of the Independent Directors do not have an impact on financial performance *(H2 Rejected).*

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4.2.2. Testing Results Effect of Competition and Proportion of Independent Commissioner of the Risk Diclosure.

Table 4 Regression Analysis

RD = α + BE β1 + β2 KI + e

	Predicated Sign	Unstandardized Beta	Standardized Beta	Sig
Constant	+	0.581		0,000
BE	+	0,022	.207	0,030
KI	+	0.254	.233	0,015
N		105		
R square		0.107		
$e = \sqrt{1 - R2}$		0.945		
Adj. R2		8.9%		

** The significance level of 5%, based on the one-tailed test
BE - Competition
KI – Commissioner

Table 3 showed the results of regression analysis of the Risk Disclosure (RD) has a regression coefficient of 2.865 to 0.029 significance level of less than α = 0.05. These results indicated that every 1 percent increased in the Risk Disclosure (RD) would raise the financial performance of 2,865 and when seen from the significant level of risk disclosure have an impact on financial performance *(H3 Accepted)*.

Based on the results of the regression analysis in Table 4, the values obtained coefficient was 0.581 for α, 0,022 to β1 and β2 0.254. Then the regression equation as follows:

RD = 0.581 + 0.022 KI + 0.254 + 0.945

Based on the analysis by using SPSS version 20 the table displays 4, the results of multiple regression analysis of the competition variable (BE) has a regression coefficient of 0.022 with a significance level of 0,030 was smaller than α = 0.05. These results indicate that every 1 percent increase competition (BE) would increase the risk of disclosure of 0.022 and when seen from the significant level of competition has an influence on the risk disclosure (H4 Accepted).

Table 4 showed the results of an Independent Commissioner variable regression analysis (KI) has a regression coefficient of 0.254 to 0.015 significance level of less than α = 0.05. These results indicated that each increase of 1 per cent of Independent Directors (KI) would increase the risk disclosure of 0.254 and when viewed from the level of significance of the Independent Commissioner have an impact on risk disclosure *(H5 Accepted)*.

4.2.3. Path Analysis Result

Based on the path analysis of image 2, the competition could have a direct impact to financial performance and may also influence indirectly that was of competition to the risk disclosures (as intervening) and then to financial performance (ROA).

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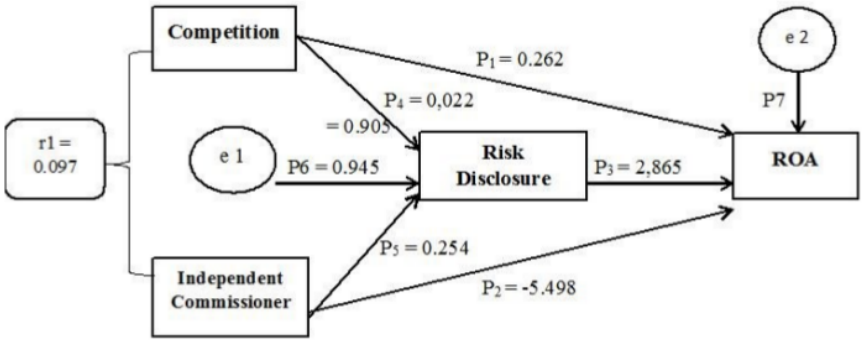
Figure 1
Path Analysis of Competition, Independent Commissioner, Risk Disclosure and Financial Performance



Source: Secondary Data were Processed, 2015

The amount of direct influence was 0.262, whereas the effect of indirectly, namely:

Competition = (0.022) x (2,865) = 0.6303
Total effect Competition = 0.262 + (0.022 x 0.211) = 0.2850

The effects of mediation shown by multiplying (x P3,P4) were either significant or not significant, were tested with the Sobel test as follows:

$Sp4P3 = \sqrt{p32\ Sp42 + p42 + Sp42\ Sp32\ Sp32}$
$= \sqrt{(2,865)^2\ (0,010)\ 2 + (0,022)\ 2\ (1,292)\ 2 + (0,010)\ 2\ (1,292)\ 2}$
$= \sqrt{(0.0008) + (0.0008) + (0.0001)}$
$= \sqrt{0.0017} = 0.0412$

Based on the results, the value of t statistics Sp4p3 mediation effect was as follows: $= 4\ 3 = \frac{0,6303}{0,0412} = 15,298$

Therefore, the 15.298 t value was greater than t table with a significant level of 0.05 was equal to 1.96, it could be concluded that the coefficient of 0.6303 mediations which meant there's a significant mediating effect.

Figure 2, it showed the results of that Independent Commissioners could not have direct impact to financial performance, but could affect indirectly that was of Independent Commissioner to the risk disclosures (as intervening) and then to financial performance (ROA). The amount of direct influence was -5.498, while not directly influence, namely:

Independent Commissioner	= (0.254) x (2,865)	= 0.7277
The total effect Independent Commissioner	= -5.498 + (0.022 x 0.211)	= -4.7703

The effect of mediation shown by multiplication (P5 x P3) was either significant or not significant, were tested with the Sobel test as follows:

$Sp5p3 = \sqrt{p32\ Sp52 + p52 + Sp52\ Sp32\ Sp32}$
$= \sqrt{(2,865)^2\ (0.102)\ 2 + (0.254)\ 2\ (1.292)\ 2 + (0.102)\ 2\ (1.292)\ 2}$
$= \sqrt{(0.0854) + (0.1077) + (0.0174)}$

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$= \sqrt{0.2105} = 0.0459$

Based on the results, the value of t statistics Sp4p3 mediation effect was as follows: $= 4\ 3 = \frac{0.7277}{} = 15{,}854\ 4\ 3\ 0{,}0459$

Therefore, the t value was 15.854 smaller than t table with a significant level of 0.05 was equal to 1.96, it could be concluded that the coefficient of 0.7277 mediations which meant there's significant mediating effect.

4.2.4. Discussion

These results indicated that the competition was a significant positive effect on the financial performance or in other words the research hypothesis **H1 was accepted**. This showed that the level of competition between one company with another company forced the company to improve its financial performance.

These results indicate that the Independent Commissioner was not a significant negative effect on the financial performance or in other words the research **hypothesis H2 was rejected**. This showed that the Independent Commissioner did not understand and carry out the task as an independent party to supervise, direct, and evaluate the implementation of the Corporate Governance and strategic policy of the bank so that the role of Independent Directors in banks in Indonesia have not been working properly.

These results indicated that the risk disclosures significant positive effect on the financial performance or in other words **research hypothesis H3 were accepted**. This showed that companies that disclose risks accurate and transparent manner, would improve the performance and value of the company.

Risk disclosure will be an attempt to reduce asymmetric information useful to investors in decision making in the future. The companies that have good financial performance would not hesitate to reveal all information about the company (Permatasari, 2014).

These results indicated that the competition was a significant positive effect on risk disclosure, or in other words **H4 research hypothesis was accepted**. This showed that the competitors were protected by entry barriers (capital investment) was high would be more transparent in uttering company information.

This study suggested that the risk disclosures mediated the relation between competition and financial performance. From the analysis of the table 4 lines on the picture directly influence the competition (BE) on financial performance (ROA) was 0.262, while the indirect effect of competition to the risk disclosures (as intervening) and to the financial performance was 0.6303. Sobel test calculation, the 15.298 t value was greater than t table with a significant level of 0.05 was equal to 1.96. It could be concluded that a significant coefficient 0.6303 mediation which means there was the influence of mediation or in other words **H5 research hypothesis was accepted.**

These results indicated that the Independent Commissioner significant positive effect on risk disclosure, or in other words **H6 research hypothesis was accepted**. This showed that the greater number of Independent Commissioner, the level of scrutiny and pressure on the better management that encourages management more transparent in disclosing risks of the company.

The magnitude of the direct influence of Independent Commissioner (KI) on financial performance (ROA) was -5.498, while the indirect influence of Independent

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Directors to the risk disclosures (as intervening) and to the financial performance was 0.7277. Sobel test calculation, the 15.854 t value was smaller than t table with a significant level of 0.05 was equal to 1.96, it could be concluded that a significant coefficient 0.7277 mediation which means there was the influence of mediation or in other words **H7 research hypothesis was accepted.**

The risk disclosure could also directly influence between independent directors and financial performance because of the presence of an independent party was expected to play a role of neutral and did not have certain business dealings because of its proximity to the management. The neutrality proficiency level becomes important when linked with the principal-agent conflicts of interest and principal minority-majority, and could reduce asymmetric information between the parties to the risk disclosures more transparent, so as to improve the company's financial performance.

5. CONCLUSION, LIMITATION AND SUGGESTION

5.1.Conclusion

This study examined the effect of competition and Independent Directors on the financial performance at risk disclosures as an intervening variable. Based on the discussion of the study result, the research concluded as follows:

1. Competition and disclosure risk shows a positive effect on financial performance, while the Independent Commissioner shows a negative effect on the financial performance.
2. Competition and Independent Commissioner shows a positive effect on the risk disclosure.
3. Risk disclosure mediates the relation between competition and financial performance, as well as the relation between Independent Commissioner and financial performance.

5.2.Limitations

Based on this research, the researcher has limitations in conducting research, including the following:

1. Variable measurement of financial performance was only measured in one variable, not comparing with other variables such as ROE or CAMELS analysis.
2. Measurement of risk disclosure variables in this study did not consider the relevance weighting disclosure items. If the items were weighted relevance disclosure of certain procedures, may provide the results of measurements of different risk disclosures and the results of different studies.

5.3.Suggestion

Based on this research, the authors provide suggestions for further research as follows:

1. Future studies could add another variable to measure the financial performance of banks.
2. Subsequent research suggested giving more weight to the relevance of the risk disclosure item.

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c. Kecukupan dan pemutakhiran data/informasi dan metodologi :
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d. Kelengkapan unsur dan kualitas terbitan :
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Sesuai bidang ilmu akuntansi.

Surakarta, ... 18 JUN 2020 .....

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*Dinilai oleh dua Reviewer secara terpisah
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