

**Philippine Christian University  
Graduate School**

**CORPORATE RISK DISCLOSURE OF BANK IN INDONESIA TOWARDS A  
CONTINGENCY MODEL IN TIMES OF FINANCIAL CRISIS PERIOD**

**A Dissertation Paper**

**Submitted to**

**The Faculty of the  
Graduate School of Business Management  
Philippine Christian University**

**by**

**ALOYSIUS HARRY MUKTI**

**April 2016**



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September 2015



**RECOMMENDATION SHEET**


This dissertation entitled "CORPORATE RISK DISCLOSURE OF BANKS IN INDONESIA TOWARDS A CONTINGENCY MODEL IN TIMES OF FINANCIAL CRISIS PERIOD", submitted by ALOYSIUS HARRY MUKTI, in partial fulfilment of the requirements for the degree DOCTOR OF PHILOSOPHY major in BUSINESS MANAGEMENT, has been examined and found satisfactory and is hereby recommended for oral examination.

  
**REVELINO D. GARCIA, DBA**  
Adviser




**APPROVAL SHEET**

In partial fulfilment of the requirements for the degree Doctor of Philosophy in Business Management, this dissertation entitled "Corporate Risk Disclosure of Banks in Indonesia Towards a Contingency Model in Times of Financial Crisis Period", was prepared and submitted to the Graduate School of Philippine Christian University by **ALOYSIUS HARRY MUKTI**.


  
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**ABSTRACT**

**TITLE** : Corporate Risk Disclosure of Bank In Indonesia Towards a Contingency Model in Times of Financial Crisis Period

**RESEARCHER** : ALOYSIUS HARRY MUKTI

**SCHOOL** : Philippine Christian University – Manila

**YEAR** : 2015

**DEGREE** : Doctor of Philosophy in Business Management

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The study was designed to conduct a corporate risk disclosure behaviour of bank in Indonesia toward a contingency model in times of financial crisis period.

The study addresses the following questions concerning technology quality system elements in terms of the following salient areas:

This study will examine the behavior of corporate risk disclosure during financial crisis period 1997-1999 and 2007-2009. The formulation of the problem to be addressed in this study is:

1. What is risk profile of banks in terms of corporate risk disclosure in following areas:

- 1.1 Financial Risk:

- 1.1.1 Interest Rate Risk;

- 1.1.2 Exchange Rate Risk; and



1.1.3 Liquidity Risk?

1.2 Business Risk:

1.2.1 Information Technology Risk;

1.2.2 Marketing Risk; and

1.2.3 Top Management Risk?

1.3 Strategic Risk:

1.3.1 Regulation Risk

1.3.2 Unemployment Rate; and

1.3.3 GDP Growth?

2. How does the behavior of corporate risk disclosure during financial crisis period 1997-1999 and 2007-2009?

3. To what extent and the significant differences in terms behaviour of disclosure by banks for the period 1997-1999 and 2007-2009 financial crisis?

4. Based on the findings what:

4.1 Contingency model for banks to minimize losses in times of financial crisis?



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**DEDICATION**

I dedicate this dissertation which is the proof of my endless search for knowledge and truth to the LORD Almighty.

**Aloysius Harry Mukti**



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## CHAPTER I

### THE PROBLEM AND ITS BACKGROUND

#### Background of Study

Major corporate collapses in the 1990s/2000s, particularly in the developed economies country, highlighted the need for good corporate governance mechanism through greater corporate accountability, social responsibility, sound risk management, transparency and disclosure practice (Latridis, 2010; Mallin, 2002). The past years have witnesses a surge of interest in the quality and extent of corporate risk practice (ASB, 2009; ICAEW, 2011). This development is not only caused by the increased multi-level pressure from various external and internal corporate stakeholders, including regulators and investors but it is also due to the apparent strategic implications for maintaining long term sustainable corporate operations (Thomas *et al*, 2013).

For a decade until mid-1997 the East Asian economics continued to experience miraculous growth. Since July 1997, however, a speculative run on the Thai baht has developed into a currency crisis throughout East Asia and stopped its rapid growth (Yamazawa, 1998). Thailand, Indonesia and the Republic of Korea, which sought rescue from the International Monetary Fund, have had to resort to severe contractionary policies and have fallen into slow growth. The East Asian miracle has suddenly disappeared as the twentieth century comes to a close, and the



situation now is better called an “economic crisis” rather than “currency crisis (Yamazwa, 1998).

The most important lesson from the crisis is that the financial sectors in many East Asian economics urgently need to develop the right set of institutional incentives and tools to manage risk and operate effectively in a global, market economy. Rapid growth and prudent macroeconomic policies do not guarantee a sound economic performance if a well-functioning and robust financial system is not in place (Remolona *et al*, 1998)

According to Anton and Voinea, 2009 that the current financial crisis has begun in 2007 and has been considered the worst financial crisis since the great depression. Among the factors that contributed to the current financial crisis are cited; increased innovation in financial products and their growing complexity; inappropriate regulation and supervision market; poor or lax risk management practice at banks and other financial institutions; increased complexity of financial systems; financial market speculation; predatory lending practice; a combination of cyclical and structural factors (Daianu and Lungu, 2008).

Similar point of view from Economist intelligence unit research program that the financial crisis of 2008 did more than expose weakness in the capital reserves and liquidity risk management of financial institutions. It also revealed profound weakness in many financial institutions there line of defense: business operations, risk management controls and independent assurance. The survey that had been done in March 2013 found that increased regulatory pressure ranks as the greatest risk



management priority for executives in the financial service industry. Yet just a small minority of respondents rate their risk management systems as fundamentally sound.

Speaking about risk management will not be separated from the behavior of managers in conducting corporate risk disclosure, managers may engage in comprehensive CRD for a number of strategic motives/ reason (Thomas, 2013). First, increased commitment to transparency and accountability through CRD can minimize agency problem by reducing information asymmetry between managers and corporate stakeholders and thereby enhance performance. Second, from institutional and legitimacy theories perspective, engaging in greater transparency and disclosure practice through CRD can strategically enhance congruence of corporate goals and norms with those of society, which can facilitate sustainable corporate operations by improving corporate reputation and goodwill.

Third, stakeholder theory suggest that engaging in comprehensive CRD can be effective strategy to gain the support of influential corporate stakeholders, such as regulators, investors, government and employees, who may be important to a corporations ability to conduct economically viable operations. Fourth, from a resource dependence perspective, increased commitment to CRD can increase access to crucial resources, such as finance, by minimizing capital and political cost through improved corporate image and reputation. In short, greater commitment to transparent CRD practices could have significant investment, financing and liquidity implications but reducing agency and information asymmetry problems.



Previous research tried to examine the behavior of managers in conducting corporate risk disclosure by taking a sample of firms listed in south Africa (Thomas et al, 2013) results showed that during the period of financial crisis in 2008 financial risk disclosure has an average disclosure of the lowest compared to business risk disclosure and corporate strategic risk disclosure. This phenomena that shows lack of disclosure in financial risk during financial crisis will be the background in this study.

### **Statement of the Problems**

This study will examine the behavior of corporate risk disclosure during financial crisis period 1997-1999 and 2007-2009. The formulation of the problem to be addressed in this study is:

1. What is risk profile of banks in terms of corporate risk disclosure in following areas:
  - 1.1 Financial Risk:
    - 1.1.1 Interest Rate Risk;
    - 1.1.2 Exchange Rate Risk; and
    - 1.1.3 Liquidity Risk?
  - 1.2 Business Risk:
    - 1.2.1 Information Technology Risk;
    - 1.2.2 Marketing Risk; and
    - 1.2.3 Top Management Risk?
  - 1.3 Strategic Risk:
    - 1.3.1 Regulation Risk





1.3.2 Unemployment Rate; and

1.3.3 GDP Growth?

2. How does the behavior of corporate risk disclosure during financial crisis period 1997-1999 and 2007-2009?
3. To what extent and the significant differences in terms behaviour of disclosure by banks for the period 1997-1999 and 2007-2009 financial crisis?
4. Based on the findings what:
  - 4.1 Contingency model for banks to minimize losses in times of financial crisis?

### **Hypothesis**

H<sub>1</sub> : Interest rate risk has no effect neither on:

Business risk (IT Risk, Marketing Risk, Top Management Risk); nor  
Strategic risk (Regulation risk, unemployment risk, GDP Growth risk).

H<sub>2</sub>: Exchange rate risk has no effect neither on:

Business risk (IT Risk, Marketing Risk, Top Management Risk; nor  
Strategic risk (Regulation risk, unemployment risk, GDP Growth risk).

H<sub>3</sub>: Liquidity Risk does not affect neither on:

Business Risk that proxied by (IT Risk, Marketing Risk, Top Management Risk), nor  
Strategic Risk proxied by (Regulation risk, unemployment risk, GDP Growth risk).



**Significance of the study**

**To banks' top management.** This study is expected to provide added value in the context of a strategic long-term decision making, taking into all aspects of risk as a basis for companies decision-making. This study shows that the risk disclosure plays an important role in order to minimize the information asymmetry between the top management and stakeholders.

**To investors.** Investors are expected to take advantage of the disclosure that made by the company as a basis for decision-making, it is time for investors to have the mind set into a sophisticated investor no longer naive investors who are able to absorb and process information is the basis of investment decisions.

**To fund managers.** The best investment portfolio is the justification of a fund manager, there are inherent risks that are be coming responsibility of a fund manager that can not choose only a risk-free portfolio. Disclosure risk of investment turned out to be one of the indicators of investors in making decisions so this should be a concern for the fund managers

**To owners.** For shareholders who do not run the operational functions, disclsoure is one way to minimize asymmtery information that will lead to a reduction in agency cost. Disclosure risk company becomes a reflection of how the borad of directors run the company, so that this disclosure is expected to be monitoring system as well as an early warning system for the shareholders.

**To other stakeholders.** Stakeholders in this case the government, the tax authority, banking and fancial institution as an authority that can take advantage of



the disclosure as mechanism of oversight. The function of early warning system is also expected to be a form of financial crisis prevention indicator.

**To future researchers.** Further research can utilize this research as a basis for the development of research which may include all aspects of risk.

**To the researcher.** For researchers, this research can give a added value of understanding the financial crisis conditions that actually that through disclosures in the annual report it can be predicted. This study can became the basic idea in the development of similar studies in the future.

#### **Scope and Limitations**

The object of this study will focus on the banking sector listed in Indonesia Stock Exchange with the timeframe observations in the 1997-1999 and 2007-2009 is consistent with the purpose of research is to capture Indonesia's financial condition at the period of financial crisis. Several limitations of this study is not to try to analyze the risk disclosures companies outside the banking sector. The measurement of risk disclosure will be done using historical and documentary approaches.

The focus on risk is based on Thomas *et al*, (2013) but not all the aspect of risk from the previous journal are included, it is limited to financial risk that consist of (interest rate risk, exchange rate risk and liquidity risk). Business risk consist of (information technology risk, marketing risk, top management risk) and strategic risk will related to regulation risk, unpleoyment risk and GDP Growth risk.



### Definitions, Terms and Key Concept

**CRD.** Corporate Risk Disclosure, is the total corporate risk disclosure proxy covering three main types of risk: (i) financial; (ii) non financial (business/operational); and (iii) non financial (strategic).

**Interest Rate Risk.** Is the potential for changes in interest rates to reduce a bank's earnings and lower its net worth? IRR manifests in several different ways but we will provide a simplified example to illustrate the general issue. The most common manifestation of IRR occurs because the assets of the banks, such as the loans it holds, come due or mature at a different time than the liabilities of the bank, such as deposits. (Federal Reserve Bank of Minneapolis, 2000)

**Exchange Rate Risk.** the possible direct loss (as a result of an unhedged exposure) or indirect loss in the firm's cash flow, assets and liabilities, net profit and in turn, its stock market value from an exchange rate move (Medeiros, 2006)

**Liquidity Risk.** the risk that result from a firm's inability to meet payment obligations in a timely and cost effective manner (wu & Hong, 2010)

**Information Technology Risk.** any risk related to information technology, various events or incidents that compromise IT in some way can therefore cause adverse impact on the organization business processes or mission.

**Marketing risk.** is defined as any marketing related activity or event that in uncertain leading to the variability and unpredictability of prices both receive for their products and pay for the production input (Crane, 2004)



**Investment Risk.** is defined as the probability or likelihood of occurrence of losses relative to the expected return on any particular investment

**Regulation Risk.** Exposure to the financial loss arising from the probability that regulatory agencies will make changes in the current rules (or will impose new rules) that will negatively effect the already taken trading positions.

**Unemployment risk.** risk that arises when someone in working age is not able to get job and it might has an effect for business growth.

**GDP Growth risk.** risk that related to the value of all the finished goods and services produced within a country borders in a specific time period.



CHAPTER 2

THEORETICAL FRAMEWORK

**Review of Related Literature and Studies**

Agency Theory. According to Jensen and Meckling (1976) an agency relationship define as a contract under which one or more persons (the principal(s)) engage another person (the agent) to perform some service on theory behalf which involves delegating some decision making authority to agent. If both parties to the relationship are utility maximizers, there is good reason to believe that the agent will not always act in the best interest of the principal. The principal can limit divergences from his interest by establishing appropriate incentives for the agent and by incurring monitoring costs designed to limit the aberrant activities of the agent. In addition in some situations it will pay the agent to expend resources (bonding costs) to guarantee that he will not take certain actions which would harm the principal or to ensure that the principal will be compensated if he does take such actions. However, it is generally impossible for the principal or the agent at zero cost to ensure that the agent will make optimal decisions from the principal's viewpoint. In most agency relationship the principal and the agent will incur positive monitoring and bonding cost, and in addition there will be some divergence between agent's decisions and those decisions which would maximize the welfare of the principal. The dollar equivalent of the reduction in welfare experienced by the principal as a result of the divergence is also a cost of the agency relationship, and we refer to this latter cost as



the “residual loss”. From the description above so agency cost consisted as a sum of:  
(1). Monitoring expenditure by the principal (2). The bonding expenditures by the agent (3). Residual loss.

Resources Dependent Theory. Resources Dependence Theory (RDT) is able to explain behavior organizations. Behavior is understood here in a wide sense, it includes actions and decision making as well as “non decision making” and result of decisions making and actions, like organizational structures (Nienhuser, 2008). A fundamental assumption of RDT is that dependence on “critical” and important resources influences the actions of organizations and that the organizational decisions and actions can be explained depending on the particular dependency situation.

Legitimacy Theory. Legitimacy is a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs and definitions. (Suchman, 1995). Suchman (1995) notes three aspects of legitimacy. First, legitimacy is generalized- it “represent an umbrella evaluation that, to some extent, transcends specific adverse acts or occurrences. It is in this respect that that we note that legitimacy is primarily long-term rather than short term. While individual events or actions may impact actual or perceived legitimacy, legitimacy transcends the specific. Second, legitimacy is a perception or assumption as it “represent a reaction of observers to the organization as they see it. Third, legitimacy is socially constructed as it reflects a congruence between the behaviors of the legitimated entity and the shared 9or



assumedly shared) beliefs of some social group. Essential to these last two points is the social aspect of legitimacy; it involves social relation and practice.

According to Aerts and Cornier, 2009 in Tregidga & Milne 2006 found that there are two streams of literature on organizational legitimacy – strategic and institutional. The strategic approach views legitimacy as somewhat controllable. It contends that “organization are able to make strategic choice to alter their legitimacy status and to cultivate the resources through corporate actions, by adapting their activities and changing perceptions. The institutional perspectives in contrast, view legitimacy as a “set of constitutive beliefs”. Under this perspectives managers decision making is downplayed – as too id conflict between organizations and constituents. The institutional perspective identifies that a “manager’s decisions often are constrained by the same belief systems that determine audience reactions”. Thus, from an institutional perspective, legitimacy empowers organizations “primarily by making them seem natural and meaningful, access to resources is largely a by-product. From an institutional perspective therefore, focus is not placed solely an organizational communication strategies, but consider broader context and recognizes them as fundamental in the constitution of organizational life.

Institutional Theory. The institutional approach used in organizational analysis is referred to as organizational institutionalism (Greenwood *et al*, 2008). Organizational institutionalism deals with the overall question: “what does the institutional perspectives tell us about organizational behavior?” Institutional theory is a useful lens to analyses organizational behavior because it can respond to





empirical mismatch, where, what we observe in the world is inconsistent with the ways in which contemporary theories ask us to talk. The theory is credited with its emphasis on the contextual, historical and procession aspects in which organizational actions take place (Currie, 2009).

Greenwood *et al* (2008) note that, “institutional theory evolved as an antidote to the overly rationalist and technocratic perspective of 1960s. In the early years of its development, institutional theory was closely associated with neo-classical economics theory, resource dependence theory and ecology theory, and has more recently been associated with structuration theory (Najee, 2014)

Stakeholder Theory. The term stakeholder is powerful one. This is due to a significant degree, to its conceptual breadth, stakeholder theory is distinct because it addresses morals and value explicitly as a central feature of managing organizations. The ends of cooperative activity and the means of achieving these ends are critically examined in stakeholder theory.

According to Donaldson & Preston (1995), there are several approaches to have a better understanding about stakeholder theory.

- The stakeholder theory is unarguably **descriptive**. The theory is used to describe, and sometimes to explain, specific corporate characteristic and behavior. For example, stakeholder theory has been used to describe (a) the nature of the firm (b) the way managers think about the interest of corporate (c) how board members



think about the interest of corporate constituencies and (d) how some corporation are actually managed.

The stakeholder theory is also **instrumental**. As an instrumental it establishes a framework for examining the connections, if any between the practice of stakeholder management and the achievement of various corporate performance goal.

The stakeholder theory as **normative** fundamental basis. The theory is used to interpret the function of the corporation, including the identification of moral and philosophical guidelines for the operation and management of corporations. Several idea that shows stakeholder theory as a normative value: (a) stakeholders are persons or groups with legitimate interest in procedural and/or substantive aspect of corporate activity. (b) The interest of all stakeholder are of intrinsic value. That is, each group of stakeholders merits consideration for its own sake and not merely because of its ability to further the interest of some other group, such as the shareowners.

The stakeholder theory is **managerial** in the broad sense of that term. existing situations or predict cause-effect relationships; it also recommends attitudes, structure and practices that, taken together, constitute stakeholder management. Stakeholder management requires, as its key attribute, simultaneous attention to the legitimate interest of all appropriate stakeholders, both in the establishment of organizational structures and general policies and in case-by-case decision making.

WHAT IS RISK. Risk is part of every human endeavor. From the moment we get up in the morning, drive or take public transportation to get to school or to work until we get back into our beds (and perhaps even afterwards), we are exposed to risks



of different degrees. What makes the study of risk fascinating is that while some of this risk bearing may not be completely voluntary, we seek out some risks on our own (speeding on the highways or gambling, for instance) and enjoy them. While some of these risks may seem trivial, others make a significant difference in the way we live our lives. On a loftier note, it can be argued that every major advance in human civilization, from the caveman's invention of tools to gene therapy, has been made possible because someone was willing to take a risk and challenge the status quo. According to clusif, 2009. Risk based on asset can be defined as a combination of an asses with a threat capable of damaging that asse and vulneerabilities exploietd by the threat to damage the asset.

PRE-CRISIS 1997. According to Pricilia *e al.*, (2014) in year 1965 After independence until 1965, the Indonesian economy entered the difficult era, because the Indonesian people face social and political problem, so that economic growth less attention.

Economic activities is minimal, large companies when it is a colonial relic company majority owned by foreigners, where export-oriented products. Conditions of socio-political stability and security are less stable makes these companies stagnate. In the period 1950 Indonesia apply the model guidance in the management of economic development, the basic pattern Growth with Distribution of Wealth in which the central government is very dominant role in regulating the economy (overall development plan).



This model does not work, because it is so complex the problems of economic, social, political and security faced by the government and want to be solved jointly and simultaneously. The peak of the failure of economic development of the old order is the case of hyper inflation that reached over 500% at the end of 1965.

Economic policies taken by the government at that time:

a. Devaluation announced on August 25, 1959 lowering the value of money as follows: Paper money denominations of Rp 500 to Rp 50, Rp 1,000 to Rp 100, and all bank deposits in excess of 25,000 frozen.

b. Formation of the Economic Declaration to reach the stage of Indonesian socialist economy by means of guided. In practice it resulted in stagnation for the economy of Indonesia. Even at 1961-1962 prices of goods rise up to 400%.

c. Devaluation carried out on December 13, 1965 to make the money worth Rp 1,000 to Rp 1. So the new rupiah currency should be rewarded 1000-fold rupiah old, but in a new society rupiah currency appreciated 10-fold higher. Then the government action to suppress the inflation rate is even increase the rate of inflation.

d. Failures in various monetary measures were compounded because the government does not save-spending.

e. At this time many lighthouse projects implemented by the government, and also as a result of the politics of confrontation with Malaysia and Western countries.

Again, this is also one of the consequences of the choice of using a system of guided democracy which could mean that Indonesia oriented to the East (socialist) both in the political, economic and other fields.



CRISIS 1997-1999. In Thailand, the year 1995 witnessed a further increase of the current account deficit, that had risen from 5.7% in 1993 to 6.4% in 1994 and 8.4% in 1995. When GDP growth slowed down in 1996, the current account fell even further, up to 8.5% of GDP. By the end of 1996, the macroeconomics conditions of Thailand appeared to be very shaky; large external deficits, increasing short term foreign indebtedness, fragile financial conditions of corporate firms and finance companies that had heavily borrowed abroad to finance the speculative boom in real estate and equity investment. It is worth stressing that the Thai baht came under attack already in November and December 1996 (Roubini., et al, 1999).

In Indonesia, an acceleration of growth in 1995 brought along worrisome signs of overheating; the inflation rate remained high, while the country trade surplus suffered drop. The government response was initially very timid; a mildly deflationary budget and a modest tightening of monetary policy. The Bank of Indonesia (BI) raised interest rates through 1995 and increased reserves requirements for commercial banks from 2% to 3% in January 1996. In September 1996, the BI announced that the reserve requirement would further increase to 5% in April 1997. The bank also intensified its efforts to moderate the expansion of bank credit by resorting to moral suasion. (Roubini., et al, 1999).

The current account deficit had widened between 1993 and 1995 also in Malaysia, reaching 8.8% GDP in 1995. Notably in 1994 and 1995 foreign direct investment failed to cover the full amount of the deficit. In 1995 there was a surge



in public investment, which grew by 25% because of a series of large infrastructure projects designed to facilitate Prime Minister Mahatir's goal of earning Malaysia the status of industrialized country by 2020. Korea experienced a serious deterioration of the macroeconomics conditions already in 1995-1996. The current account deficit dramatically widened from 1.5% GDP in 1994 to 4.8% in 1996. Export growth fell sharply, especially after negative terms of trade shocks hit the economy in 1996. The financial conditions of the conglomerates and their creditor banks were shaky, raising the possibility of widespread bankruptcies; reflecting such weakness, the stock market fell sharply in the two year period 1995-1996 down by 36% relative to the 1995 peak.

CRISIS 2007-2009. The crisis of 2007–2008 unfolded in several stages (Roubini & Mihm 2010). It began in the United States with the bursting of a housing bubble and the growth of mortgage defaults, particularly those involving subprime mortgages that had been extended in growing numbers at the height of the bubble to less creditworthy borrowers. These defaults increasingly affected the stability of financial institutions with exposure to these mortgages as well as financial products tied to these mortgages (described below). Several hedge funds were the first to collapse in May and June 2007, and by August, serious concerns broke out in money markets about the exposure of a wide range of financial institutions in the United States and Europe that had invested heavily in mortgage-related financial products. By mid- September, panic even broke out at the retail level, with Britain experiencing its first bank run (Northern Rock) since the nineteenth century. Despite official efforts



to calm the markets with large doses of liquidity, the crisis only deepened in March 2008, when the major U.S. investment bank Bear Sterns had to be rescued by U.S. authorities. Three developments in September 2008 then triggered a total collapse of market confidence. Early in the month, the U.S. government placed the two giant government-sponsored mortgage Lending agencies, Fannie Mae and Freddie Mac (“Fannie and Freddie”), under a form of public “conservatorship” because of the enormous losses they were experiencing. By the middle of the month, the U.S. investment bank Lehman Brothers was forced into bankruptcy. Shortly thereafter, the world’s largest insurance company, American International Group (AIG), was rescued and nationalized by the U.S. government.

It was at this point that the severity of the crisis began to be felt much more strongly beyond the North Atlantic region. Because of their difficulties, U.S. and European banks pulled back their international loans, triggering severe financial problems and debt crises in countries that had been borrowing heavily from abroad. International trade credits also dried up, bringing exports and imports to a standstill in many sectors and countries. Financial contagion was felt particularly strongly in countries whose financial systems were already vulnerable because of home-grown housing bubbles, financial excesses, and/or large current account deficits. Iceland was a particularly dramatic example, but there were many others, such as Britain, Germany, Ireland, Spain, the Baltic countries, Dubai, Singapore, Australia, and New Zealand. The impact of the financial crisis also spread globally through various spillovers operating through the “real economy,” such as collapsing exports, commodity prices,



and remittance payments. Although economists largely failed to predict this global economic seismic shock, they have since made up for their oversight by generating a large and growing literature explaining the crisis. Many economists point to market failures that generated excessive risk taking and a financial bubble during the years leading up to the crisis. Although some of the specific failures were unique to this era, those with a historical perspective have usefully highlighted broad parallels with past crises. Drawing on Kindleberger's (1978) classic work, they note that financial manias are usually set off by a change in expectations or "displacement," often caused by some kind of innovation. That innovation then generates overtrading and the emergence of a bubble driven by a kind of excessive optimism and herd behavior. When the bubble eventually bursts, panic ensues (Helleiner, 2011)

BASEL. The Basel committee on Banking Supervision has its origin in the financial market turmoil that followed the breakdown of the Bretton Woods system of managed exchange rates in 1973. After the collapse of Bretton woods, many banks incurred large foreign currency losses. In response to these and other disruptions in the international financial markets,, the central bank governors of the G10 countries established a committee on banking regulations and supervisory practices at the end of 1974. Later renamed the Basel Committee on Banking Supervision, the committee was designed as a forum for regular cooperation between its member countries on banking supervisory matters. Its aim was and is to enhance financial stability by improving supervisory knowhow and the quality of banking supervision worldwide.





BASEL I. With the foundations for supervision of internationally active banks laid, capital adequacy soon became the main focus of the Committee's activities. In the early 1980s, the onset of the Latin American debt crisis heightened the Committee's concerns that the capital ratios of the main international banks were deteriorating at a time of growing international risks. Backed by the G10 Governors, Committee members resolved to halt the erosion of capital standards in their banking systems and to work towards greater convergence in the measurement of capital adequacy. This resulted in a broad consensus on a weighted approach to the measurement of risk, both on and off banks' balance sheets.

There was strong recognition within the Committee of the overriding need for a multinational accord to strengthen the stability of the international banking system and to remove a source of competitive inequality arising from differences in national capital requirements. Following comments on a consultative paper published in December 1987, a capital measurement system commonly referred to as the *Basel Capital Accord* (1988 Accord) was approved by the G10 Governors and released to banks in July 1988.

The 1988 Accord called for a minimum capital ratio of capital to risk-weighted assets of 8% to be implemented by the end of 1992. Ultimately, this framework was introduced not only in member countries but also in virtually all other countries with active international banks. In September 1993, the Committee issued a statement confirming that G10 countries' banks with material international banking business were meeting the minimum requirements set out in the Accord.



The Accord was always intended to evolve over time. It was amended first in November 1991. The 1991 amendment gave greater precision to the definition of general provisions or general loan-loss reserves that could be included in the capital adequacy calculation. In April 1995, the Committee issued an amendment, to take effect at end-1995, to recognise the effects of bilateral netting of banks' credit exposures in derivative products and to expand the matrix of add-on factors. In April 1996, another document was issued explaining how Committee members intended to recognise the effects of multilateral netting.

The Committee also refined the framework to address risks other than credit risk, which was the focus of the 1988 Accord. In January 1996, following two consultative processes, the Committee issued the so-called *Market Risk Amendment to the Capital Accord* (or Market Risk Amendment), to take effect at the end of 1997. This was designed to incorporate within the Accord a capital requirement for the market risks arising from banks' exposures to foreign exchange, traded debt securities, equities, commodities and options. An important aspect of the Market Risk Amendment was that banks were, for the first time, allowed to use internal models (value-at-risk models) as a basis for measuring their market risk capital requirements, subject to strict quantitative and qualitative standards. Much of the preparatory work for the market risk package was undertaken jointly with securities regulators. (BIS,2014)

BASEL II. In June 1999, the Committee issued a proposal for a new capital adequacy framework to replace the 1988 Accord. This led to the release of the



*Revised Capital Framework* in June 2004. Generally known as “Basel II”, the revised framework comprised three pillars, namely:

- I. minimum capital requirements, which sought to develop and expand the standardised rules set out in the 1988 Accord;
- II. supervisory review of an institution’s capital adequacy and internal assessment process; and
- III. effective use of disclosure as a lever to strengthen market discipline and encourage sound banking practices. The new framework was designed to improve the way regulatory capital requirements reflect underlying risks and to better address the financial innovation that had occurred in recent years. The changes aimed at rewarding and encouraging continued improvements in risk measurement and control.

The framework’s publication in June 2004 followed almost six years of intensive preparation. During this period, the Basel Committee consulted extensively with banking sector representatives, supervisory agencies, central banks and outside observers in an attempt to develop significantly more risk-sensitive capital requirements.

Following the June 2004 release, which focused primarily on the banking book, the Committee turned its attention to the trading book. In close cooperation with the International Organization of Securities Commissions (IOSCO), the international body of securities regulators, the Committee published in July 2005 a consensus document governing the treatment of banks’ trading books under the new framework. For ease of reference, this new text was integrated with the June 2004 text in a

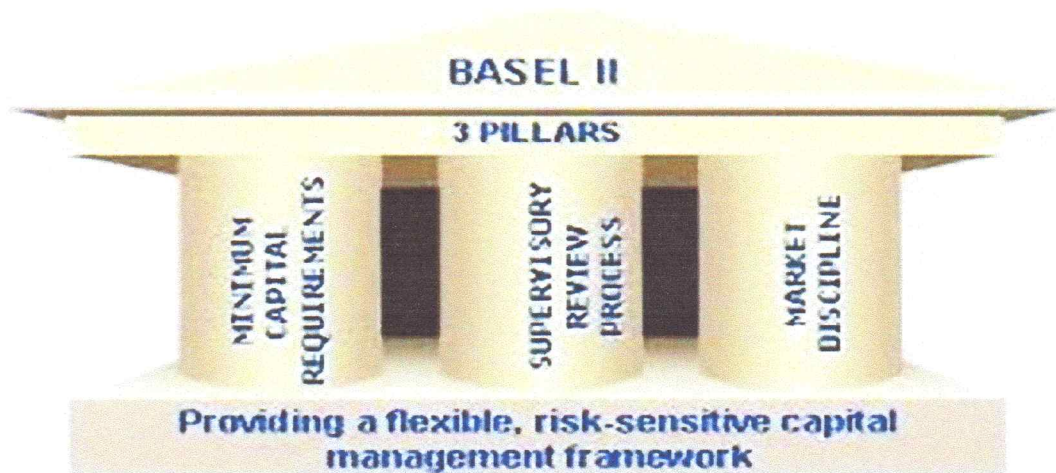


comprehensive document released in June 2006: *Basel II: International convergence of capital measurement and capital standards: a revised framework - comprehensive version*. (BIS, 2014)

Committee member countries and several non-member countries agreed to adopt the new rules, albeit on varying timescales. Thereafter, consistent implementation of the new framework across borders became a more challenging task for the Committee. One challenge that supervisors worldwide faced under Basel II was the need to approve the use of certain approaches to risk measurement in multiple jurisdictions. While this is not a new concept for the supervisory community – the Market Risk Amendment of 1996 involved a similar requirement – Basel II extended the scope of such approvals and demanded an even greater degree of cooperation between home and host supervisors. To help address this issue, the Committee issued guidance on information-sharing in 2006. In the following year, it followed up with advice on supervisory cooperation and allocation mechanisms in the context of the advanced measurement approaches for operational risk.



Figure 1.1 - Frame of BASEL II



BASEL III. With the collapse of Lehman Brothers in 2008, the need for a fundamental strengthening of the Basel II framework had become apparent. The banking sector had entered the financial crisis with too much leverage and inadequate liquidity buffers. These defects were accompanied by poor governance and risk management, as well as inappropriate incentive structures. The dangerous combination of these factors was demonstrated by the mispricing of credit and liquidity risk, and excess credit growth.

Responding to these risk factors, the Basel Committee issued *Principles for sound liquidity risk management and supervision* in the same month that Lehman Brothers failed. In July 2009, the Committee issued a further package of documents to strengthen the Basel II capital framework, notably with regard to the treatment of certain complex securitisation positions, off-balance sheet vehicles and trading book



exposures. These enhancements were part of a broader effort to strengthen the regulation and supervision of internationally active banks, in the light of weaknesses revealed by the financial market crisis.

In September 2010, the Group of Governors and Heads of Supervision announced higher global minimum capital standards for commercial banks. This followed an agreement reached in July regarding the overall design of the capital and liquidity reform package, now referred to as “Basel III”. In November 2010, the new capital and liquidity standards were endorsed at the G20 Leaders Summit in Seoul and subsequently agreed at the December 2010 Basel Committee meeting.

The proposed standards were issued by the Committee in mid-December 2010 (and have been subsequently revised). The December 2010 versions were set out in *Basel III: International framework for liquidity risk measurement, standards and monitoring* and *Basel III: A global regulatory framework for more resilient banks and banking systems*. The enhanced Basel framework revised and strengthen the three pillars established by Basel II. It also extended the framework with several innovations, namely:

- an additional layer of common equity – the capital conservation buffer – that, when breached, restricts payouts of earnings to help protect the minimum common equity requirement;
- a countercyclical capital buffer, which places restrictions on participation by banks in system-wide credit booms with the aim of reducing their losses in credit busts;



- a leverage ratio – a minimum amount of loss-absorbing capital relative to all of a bank’s assets and off-balance sheet exposures regardless of risk weighting (defined as the “capital measure” (the numerator) divided by the “exposure measure” (the denominator) expressed as a percentage);
- liquidity requirements - a minimum liquidity ratio, the liquidity coverage ratio (LCR), intended to provide enough cash to cover funding needs over a 30-day period of stress; and a longer-term ratio, the net stable funding ratio (NSFR), intended to address maturity mismatches over the entire balance sheet; and
- additional proposals for systemically important banks, including requirements for supplementary capital, augmented contingent capital and strengthened arrangements for cross-border supervision and resolution.

The Basel Committee has worked in close collaboration with the Financial Stability Board (FSB) given the FSB’s role in coordinating the monitoring of implementation of regulatory reforms. The Committee designed its programme to be consistent with the FSB’s *Coordination framework for monitoring the implementation of financial reforms* (CFIM) as agreed by the G20.

These tightened definitions of capital, significantly higher minimum ratios and the introduction of a macroprudential overlay represent a fundamental overhaul for banking regulation. At the same time, the Basel Committee, its governing body and the G20 Leaders have emphasised that the reforms will be introduced in a way that does not impede the recovery of the real economy.



In addition, time is needed to translate the new internationally agreed standards into national legislation. To reflect these concerns, a set of transitional arrangements for the new standards was announced in September 2010, although national authorities are free to impose higher standards and shorten transition periods where appropriate.

The strengthened definition of capital will be phased in over five years: the requirements were introduced in 2013 and should be fully implemented by the end of 2017. Capital instruments that no longer qualify as common equity Tier 1 capital or Tier 2 capital will be phased out over a 10-year period beginning 1 January 2013.

Turning to the minimum capital requirements, the higher minimums for common equity and Tier 1 capital were phased in from 2013, and will become effective at the beginning of 2015. The schedule is as follows:

- The minimum common equity and Tier 1 requirements increased from 2% and 4% to 3.5% and 4.5%, respectively, at the beginning of 2013.
- The minimum common equity and Tier 1 requirements rose to 4% and 5.5%, respectively, at the beginning of 2014.
- The final requirements for common equity and Tier 1 capital will be 4.5% and 6%, respectively, beginning in 2015.

The 2.5% capital conservation buffer, which will comprise common equity and is in addition to the 4.5% minimum requirement, will be phased in progressively starting on 1 January 2016, and will become fully effective by 1 January 2019.





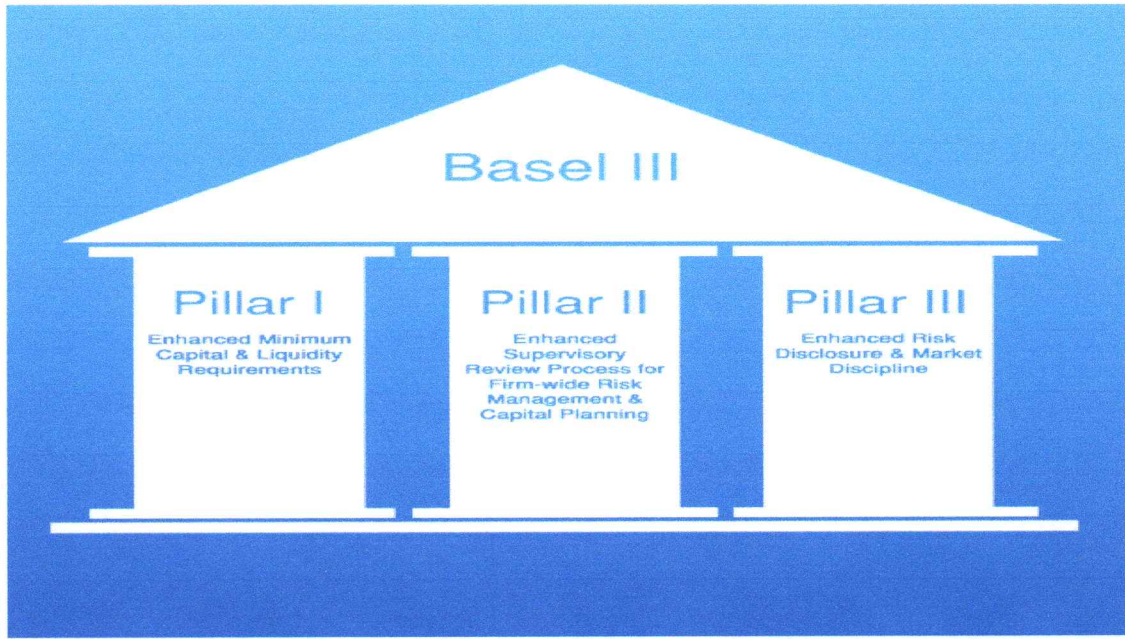
The leverage ratio will also be phased in gradually. The test (the so-called “parallel run period”) began in 2013 and will run until 2017, with a view to migrating to a Pillar 1 treatment on 1 January 2018 based on review and appropriate calibration. The exposure measure of the leverage ratio was finalised in January 2014.

The liquidity coverage ratio (LCR) will be phased in from 1 January 2015 and will require banks to hold a buffer of high-quality liquid assets sufficient to deal with the cash outflows encountered in an acute short-term stress scenario as specified by supervisors. To ensure that banks can implement the LCR without disruption to their financing activities, the minimum LCR requirement will begin at 60% in 2015, rising in equal annual steps of 10 percentage points to reach 100% on 1 January 2019.

The other minimum liquidity standard introduced by Basel III is the net stable funding ratio. This requirement, which takes effect as a minimum standard by 1 January 2018, will promote longer term funding mismatches and provide incentives for banks to use stable funding sources.(BIS, 2014)



Figure 1.2- Frame of BASEL III



### Previous Related Studies

There has been several studies that focus on disclosure practices during financial crisis, Hirtle (2015) in its research paper conclude that market discipline has occupied an increasingly prominent place in discussions of the banking industry in recent years. Market discipline is the idea that the actions of shareholders, creditors, and counterparties of banking companies can influence the investment, operational, and risk-taking decisions of bank managers. Bank supervisors have embraced market discipline as a complement to supervisory and regulatory tools for monitoring risk at individual banks and for limiting systemic risk in the banking system. For instance, the Basel Committee on Banking Supervision says “the provision of meaningful



information about common risk metrics to market participants is a fundamental tenet of a sound banking system. It reduces information asymmetry and helps promote comparability of banks' risk profiles. Market discipline may influence banks' behavior not only in response to a market reaction, but also in anticipation of one. That is, market discipline may also work by affecting management behavior *ex ante* so as to prevent a negative outcome and consequent market reaction. In this sense, greater disclosure can serve as a kind of commitment device by providing sufficient information to the market about a bank's condition and future prospects that it is constrained from altering its risk profile in a way that disadvantages either investors or creditors. Banks' ability to shift assets and risk positions quickly has been cited as one of the key sources of opaqueness in the banking industry. In fact, several studies have found evidence of greater opaqueness at banks with higher shares of liquid assets, including especially trading positions. The conclusion from its research paper is that disclosure plays an important role in market discipline since market participants need to have meaningful information on which to base their judgments of risk and performance. Disclosure is particularly important in the banking industry, since banks are generally viewed as being opaque to outsiders. As a result, banking supervisors and other public sector officials have encouraged enhanced disclosure by banking companies, particularly of forward-looking estimates of risk. This paper tries to assess whether these kinds of disclosures provide useful information to market participants that can help foster market discipline.



Another perspective came from European evidence related with disclosure during financial crisis (Malafrente & Starita, 2013) their focus is in readability of the documents, the amount of risk information disclosed in the annual reports and its determinants. In particular, it focuses on the description of the methodology adopted for measuring qualitative and quantitative disclosure and provides empirical results about the relationship between risk disclosure levels, insurers' characteristics, and the impact of the financial crisis.

The starting point for this kind of analysis is the recognition of the potential high value assumed by disclosure in the current financial system: if relevant information is put into the public domain then participants in the marketplace can sanction unsatisfactory results, shareholders and other stakeholders (i.e. policyholders) can better manage their risk positions and the companies themselves should benefit from a reduction in their cost of finance. It also helps supervisors to be more effective in their monitoring as they are better positioned to foresee potential problems and can therefore act earlier (Linsley and Shriver, 2005). At the same time, it is a complex process, so that only if all the actors involved – law-makers, disclosers and disclosees – play their parts properly, disclosure succeeds, otherwise it fails to reach its purposes (Ben-Shahar and Schneider, 2010).

Rumambi, 2010 in his study that put emphasized in times of financial crisis period in Philippines found that before Asian financial crisis, the Philippines enjoying a significant economic growth as well as an extraordinary growth in stock market. The firms enjoying a comfortable profit margin, which then were reinvested for the



expansion of production capacity. During the Asian financial crisis, the Philippines was the least affected countries in the region. Based on some financial indicators, the country financial system seemed to be more solid compared to other affected countries. The depreciation of Peso had only a modest impact on the Philippines balance payment positions. After the crisis, Philippines quickly recovered by posting a positive growth in the year 1999.

The main results show that the annual reports are difficult to read; the lack of consumer disclosure can be seen as a loss of consumer protection, even if it does not avoid that more financially educated stakeholders can read the reports. Moreover, it is not documented an effort by companies to enhance their understandability, as readability levels are quite constant over time, thus a problem of readability raises. The level of risk disclosure has increased over time, with a stronger growth between 2008 and 2010. Several tests show that there is no relationship between the quality and the quantity of disclosure, showing that the choices about readability and risk disclosure are based on different criteria. Finally, the analysis shows that insurers' characteristics, in terms of size, profitability, reserve, as well as year, home country and the crisis, significantly affect the amount of risk information disclosed. Hence, this research highlights how European insurance industry invests more in disclosure during the financial crisis, *i.e.* to maintain market confidence it is necessary an effective disclosure of relevant risk information

The need for corporate risk disclosure was also came from Nigerian corporation, Adamu (2013) stated that the extent of risks that are inherited in the



contemporary business environments required a lot of scholars, standard setters, accounting institutes, investors and other stakeholders from several countries to clamor for corporate risk disclosure in the content of listed companies' annual reports. Some of the factors responsible for these advocates include scandals perpetrated by corporate managers; accounting irregularities and the recent global financial crisis that have brought serious worrisome in the business world. These incidents caused the collapses of high profile companies across the globe, at the same time claimed the lives and properties of several stakeholders especially shareholders and creditors. These obstacles have also tempered with investors' confidences in the business world. However, at the turn of this century, Cabedo and Tirado (2004) argue that, current practice of companies' external reporting is considered as insufficient because is lacking an adequate disclosure on corporate risk and uncertainties. Therefore, there is need for the world regulators to address this disclosure demand. Nevertheless, perhaps, the demands of various regulators will create differences in the extent of corporate risk reporting between separate jurisdictions and between the firms listed on different stock exchanges across the globe. This gives rise to anticipation that companies listed in more than one country such as multinational corporations, most of the time are disclosing more about their risks than other companies' do, as they strive to meet the requirements of their most exciting regulators, in addition to any particular demands of the other regulators. In its reserach paper there are several motivation and benefit in terms of corporate risk reporting, corporate risk disclosure is very important because it can improve



corporate transparency. Consequently the activities of the capital market can be boosted and increase the shareholders value. In addition to the above, if transparency is achieved by way of conveying adequate information to stakeholders, the relevance and reliability of accounting information in the part of stakeholder's decision will be enhanced. Corporate Transparency can increase and maintain investors' confidence; hence accurate stocks valuation can be achieved. Transparency can eliminate the disparities between what investors perceive and expect from what the corporate management can deliver. From the part of Hutton (2004) in Adamus (2013) believes that providing inadequate disclosure means that managers have superior information to investors, who may not fully understand the accompanying risks and rewards of a firm's business. Additionally, Skinner (1994&1997) in Adamus (2013) suggests that, companies might appreciate the benefit associated with corporate risk reporting and understand that markets will penalize all companies that provide insufficient information relative to their peers. In a further remark, he posited that corporate risk disclosure ensuring corporate competitive advantage in attracting capital. However, corporate managers may fear litigation and reputation costs as a result of providing voluntary risk information to investors; there is the need for rules/regulation that can protect managers from unnecessary litigation due to corporate risk disclosure. Nonetheless, Hutton (2004) in Aadamus (2013) posits that, provision of adequate corporate risk disclosure will enable investors to incorporate such risk especially in course of valuing their investments; thereby reducing excess demand that can cause stock price to be critically higher than they would be especially in the event market



had the information that is available to managers. However, communicating risk related information will improve corporate transparency; hence, the problem of information asymmetry can be resolved. In the views of Akerlof (1970); Murugesu and Santhapparaj (2010) in Adamus (2013) state that if the problem of information asymmetry is not fully resolved between management and investors, consequently, capital markets could undervalue some good companies and overvalue some bad companies relative to the information made available to investors and other stakeholders. Moreover, accurate disclosure on corporate risks and uncertainties can prevent severe damage to the long-term health and reputation of a company that may otherwise result from overvalued corporate equities (Fuller & Jensen, 2002; Deumes, 1999). In addition, less information asymmetry however, lowers the risk of investors in forecasting future payoffs from their investment. The result from its reserach paper was There is no any doubt from the fact that when ever company identifies and discloses their risk to the general public inform of annual reports, they don't have any alternative apart from taken strong measures of handling the case to a tolerance level.

### **Conceptual Framework**

This Conceptual framework presents two indicators from the condition of banks during the financial crisis from 1997 to 1999 and from 2007 to 2009, the first one is risk profile which consists of financial risk, business risk and strategic risk also the condition of compliance with Basel III regulation, to the third pillar, namely the disclosure requirements for banks. According to Baker & Gabriel (1980) finacial risk

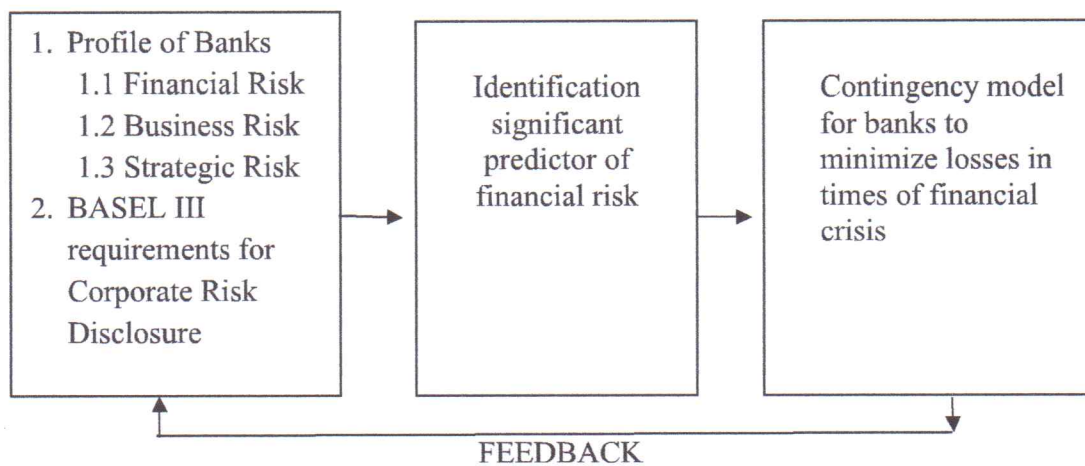




can be defined to be the added variability of the net cash flows of the owners of equity that results from the fixed financial obligation associated with debt financing and cash leasing. Business risk is defined to be the risk inherent in the firm, independent of the way it is financed. Business risk generally is reflected in the variability of net operating income or net cash flow (Gabriel & Baker, 1980). Strategic risk according to Allan & Beer (2006) can be defined as any risk (threat or opportunity) that materially affects the ability of an organization to survive. The other indicator is regulation of Basel III, Basel III is introduced after the significant event collapse of Lehman Brothers in 2008. The global economic crisis has provided an opportunity for a fundamental restructuring of the approach to risk and regulation in financial sector. The Basel Committee on Banking Supervision (BCBS) has collectively reached an agreement to strengthen global capital under Basel III. The 3rd pillar that will significantly influence this research is enhanced risk disclosure and market discipline. Data will use the historical data that is financial statements of the period of financial crisis in the end the expected output is there is a corrective action in order to meet the bank's compliance to the third pillar of Basel III that is disclosure for banks and as mitigation the result also expect a contingency model to minimize the probability of financial crisis in the future.



Figure 1.3 Conceptual Framework



**Hypothesis**

H<sub>1</sub> : Interest rate risk has no effect neither on:

Business risk (IT Risk, Marketing Risk, Top Management Risk); nor  
Strategic risk (Regulation risk, unemployment risk, GDP Growth risk).

H<sub>2</sub>: Exchange rate risk has no effect neither on:

Business risk (IT Risk, Marketing Risk, Top Management Risk; nor  
Strategic risk (Regulation risk, unemployment risk, GDP Growth risk).

H<sub>3</sub>: Liquidity Risk does not affect neither on:

Business Risk that proxied by (IT Risk, Marketing Risk, Top Management Risk), nor



Strategic Risk proxied by (Regulation risk, unemployment risk, GDP Growth risk).

### Definition of Main Variables

**Financial Risk** is the possibility that shareholders will lose money when they invest in a company that has debt, if the company's cash flow proves inadequate to meet its financial obligations. Investors can use a number of financial risk ratios to assess an investment's prospects. For example the debt to capital ratio measure the proportion of debt used, given the total capital structure of the company. A high proportion of debt indicates a risky investment.

Another ratio, the capital expenditure ratio, divided cash flow operations by capital expenditures to see how much money a company will have left to keep the business running after it services debt.

**Business risk** is the possibility that a company will have lower than anticipated profits, or that it will experience a loss rather than profit. Business risk is influenced by numerous factors, including sales volume, per-unit price, input costs, competition, overall economic climate and government regulations.

**Strategic Risk** is exposure to loss resulting from a strategy that turns out to be defective or inappropriate and its related with future plans and strategies, including plans for entering new services, expanding existing services through enhancements and mergers, enhancing infrastructure, etc.



## CHAPTER 3

### RESEARCH METHODOLOGY

#### **Population and Samples**

The population of this research are companies that are listed in the Indonesia Stock Exchange (IDX). The samples are publicly traded companies listed on the Indonesia Stock Exchange that contains data about the company's risk management disclosure in its annual report period 1997-1999 and 2007-2009. For the second criteria is a company focused on the banking sector. Sampling at two periods based on objective research to test the behavior of corporate risk disclosure during two periods of the financial crisis.

#### **Data Gathering Procedure**

The data used in this research is secondary data, published data contained in the audited financial statements of 1997-1999 and 2007-2009. Source of data obtained from [www.idx.co.id](http://www.idx.co.id). And public library of Bank Indonesia.

#### **Statistical Treatment of Data**

Regression analysis is a statistical tool for the investigation of relationships between variables. Usually, the investigator seeks to ascertain the causal effect of one variable upon another- such as the effect of a price increases upon demand. In this research the researcher test Hypothesis 1 up to Hypothesis 3 will be used multiple regression analysis with these following model:



Model 1

$$IRR = \alpha_0 + \alpha_1 \text{BANK} + \alpha_2 \text{YEAR} + \alpha_3 \text{ITR} + \alpha_4 \text{MR} + \alpha_5 \text{TMR} + \alpha_6 \text{RegR} + \alpha_7 \text{URR} + \alpha_8 \text{GR} + \epsilon$$

Model 2

$$ERR = \alpha_0 + \alpha_1 \text{BANK} + \alpha_2 \text{YEAR} + \alpha_3 \text{ITR} + \alpha_4 \text{MR} + \alpha_5 \text{TMR} + \alpha_6 \text{RegR} + \alpha_7 \text{URR} + \alpha_8 \text{GR} + \epsilon$$

Model 3

$$LR = \alpha_0 + \alpha_1 \text{BANK} + \alpha_2 \text{YEAR} + \alpha_3 \text{ITR} + \alpha_4 \text{MR} + \alpha_5 \text{TMR} + \alpha_6 \text{RegR} + \alpha_7 \text{URR} + \alpha_8 \text{GR} + \epsilon$$

Model 1- 3 Description :

IRR	Interest Rate Risk
ERR	Exchange Rate Risk
LRR	Liquidity risk
BANK	Bank Coding
YEAR	Dummy Year
ITR	Information Technology Risk
MR	Marketing Risk
TMR	Top Management Risk
RegR	Regulation Risk
URR	Unemployment Rate Risk
GR	GDP Growth Risk

**Definition Additional Statistic Analysis:**

1. R-squared is a statistical measure of how close the data are to be fitted regression, it also known as the coefficient of determination, R-squared is fairly straight



forward the percentage of the response variable variation. In general the higher the R-squared the better the model fits your data.

2. Anova F Test, the F-statistic in the linear model output display is the test statistic for testing the statistical significance of the model. The F-statistic values in the `anova` display are for assessing the significance of the terms or components in the model.
3. T-test, the T test is statistical data analysis procedure for hypothesis testing. The statistics t test allow us to answer his question by using the t-test statistics to determine a p-value that indicates how likely we could have gotten these results by chance, if in fact the null hypothesis were true. By convention, if there is less than 5% chance of getting the observed differences by chance, we reject the null hypothesis and say we found a statistically significant differences between two groups.

### **Variable Measurement**

Financial Risk. Financial risk in this research will be proxied by:

- (i) Interest rate, will be measured by total current liabilities over total current asset
- (ii) Exchange rate, will be measured by changes in local currency and changes in dollar during 1997 -1999 and 2007-2009
- (iii) Liquidity Ratio, will be measured by percentage of NPL (Non performing loan)



Business Risk. Business risk in this reserach will be proxied by:

- (i) Information technology risk, will be measured by dummy variable, 1 if theres any changes in times financial crisis, 0 for none
- (ii) Marketing risk, will be measured by ratio marketing cost each banks divided by total marketing cost all sample
- (iii) Top management risk will be measured by dummy variables,1 if theres any changes in board of director in times financial crisis, 0 for nove

Strategic Risk. Strategic risk in this research will be proxied by:

- (i) Regulation risk, regulation here will be measured by total regulation that released by the central bank each yearr suring 1997-199 and 2007-2009
- (ii) Unemployment rate risk, will be use rate unemployment each year during financial crisis period.
- (iii) GDP rate risk, will be use value of total Gross Domestic Product that generate by country sample during financial crisis



CHAPTER 4

DATA ANALYSIS AND RESULTS

This chapter presents in detail the discussion of results of the study. The presentation follows the order in which the areas under study are presented: interest rate, exchange rate, financial liquidity, information technology, marketing, top management, regulation, unemployment and GDP rate for Indonesia in two period financial crisis (1997-1999) and (2007-2009).

1. What is the risk profile of banks in terms of corporate risk disclosure

**Risk profile**

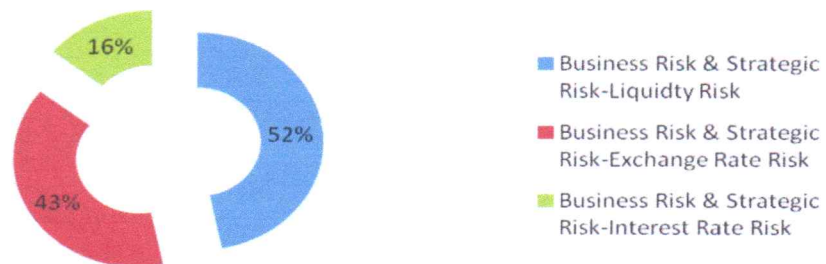
According to (risk business, 2011) a risk profile is essentially a representation's overall exposure to some of the specific risk or risk group. (ntim., et al, 2013) grouping a risk disclosure into three major groups, that are: (i) financial risk (ii) business risk and (iii) strategic risk. Risk profile in this study will refer to the value of R-square statistic that tests the ability to explain the relationship of grouping business risk and strategic risk against financial risk grouping.





Figure 4.1

**Bank Risk Profile in times Financial Crisis  
1997-1999 & 2007-2009**



From figure 4.1 it can be concluded based on the sample in this study, the risk profile of the banking industry in times of financial crisis emphasized the importance of banking liquidity, followed by exchange rate risk and interest rate risk. Liquidity or in this case is the availability of funds from any bank to be reallocated to other forms of investment or in the form of lending is very crucial compared to exchange rate risk and interest rate risk, it is caused when the availability of funds is not inhibited the absorption of these funds in other forms can help depressed the value of the local currency and if the value of the local currency does not depreciate, the government will decimate policy changes on interest rates

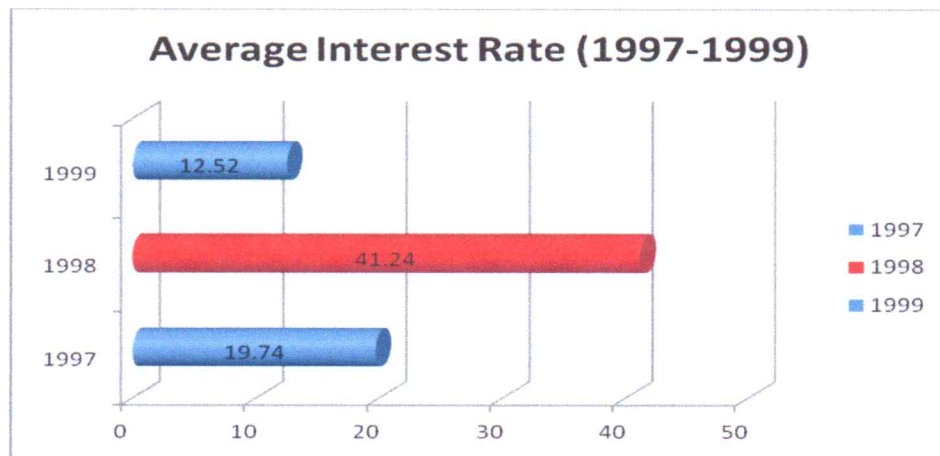
2. How was the behavior of corporate risk disclosure during the financial crisis period 1997-1999 and 2007-2009 ?



**Interest rate (1997-1999) & (2007-2009).**

The interest rate is one of the variables of financial instruments which have a major role to reduce the effects of financial crisis, the crisis period 1997-1999 is the most worst period experienced by Indonesia, is seen in the following chart

**Figure 4.2**

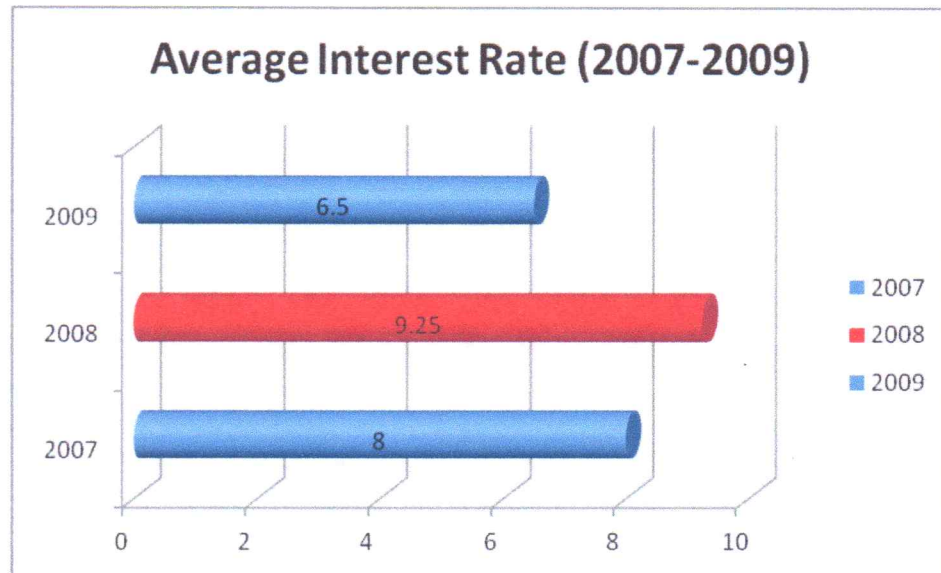


Source: Indonesia Financial Statistic 2015

While the period of 2007-2009 the increase in interest rates can be seen in the year 2008, from previously in 2007 by 8%, rising to 9:25%, as in the following graph



Figure 4.3



Source: Indonesia Financial Statistic 2015

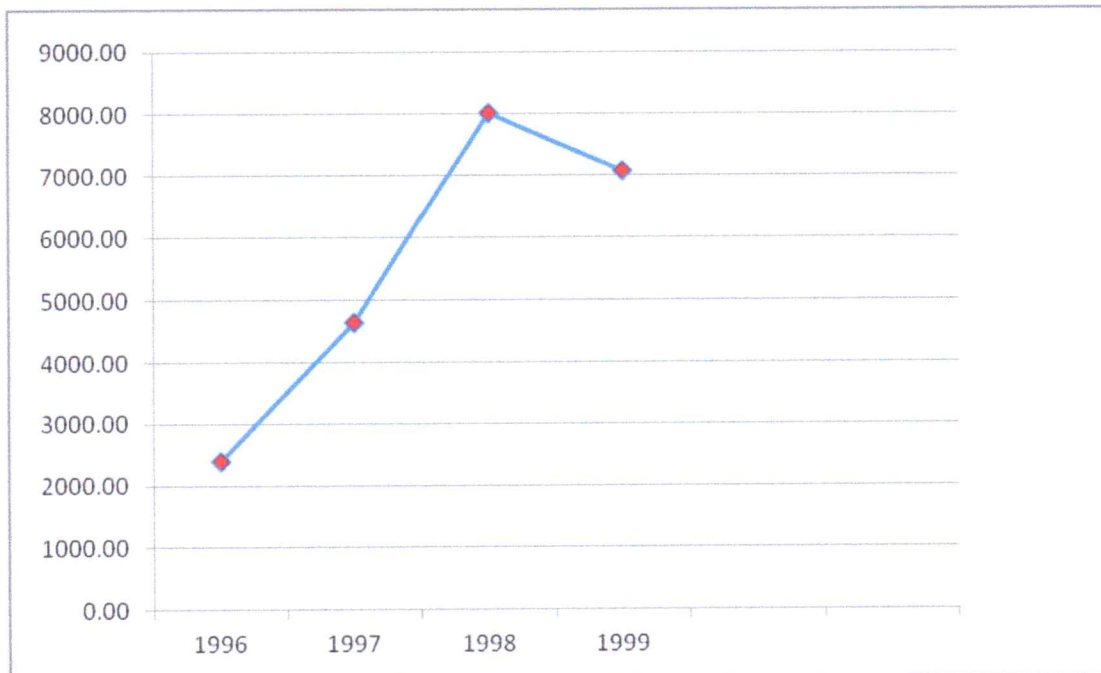
**Exchange rate (1997-1999) and (2007-2009).**

At first the economic crisis that hit Indonesia since 1997 is mainly triggered by the crisis in the rupiah. Pressure depreciation of the exchange rate is mainly from the major factor of contagion from the crisis Baht exchange rate in July 1997. The effect of contagion has not only hit Indonesia but also quickly spread to other Asian countries, such as the Philippines, Malaysia and South Korea. To pressures on the rupiah depreciation, it forced Indonesia to release a controlled floating exchange rate regime (managed floating) into a free floating exchange rate system (Free Floating Exchange Rate) on August 14, 1997. In order to prevent the national economy from a deeper crisis as a result from the exchange rate depreciation pressures and capital



outflows, the government issued a package of economic policy in September 1997. Subsequently, the program expanded into a program of stabilization and reform. The economy was supported by the IMF, World Bank and ADB formally in November 1997. As part of the implementation of the reform program in the financial sector in to nourish the banking system, on 1 November 1997 16 private national banks were closed. The graph below presents the movement of the exchange rate of the rupiah against the dollar in the period 1997-1999

**Figure 4.4**  
**Average exchange currency Rupiah agains 1 Dollar**



The rupiah exchange rate against the USD started to decline since mid-2008 and continued to depreciate until it reaches its lowest level at the beginning of 2009 to



Rp. 11,900 per 1 USD. Changes in exchange rates that occur, either appreciation or depreciation affected export and import activities in the country, because the USD is still the currency that dominates global trade payments.

**Figure 4.5**

**average exchange currency Rupiah against 1 Dollar**



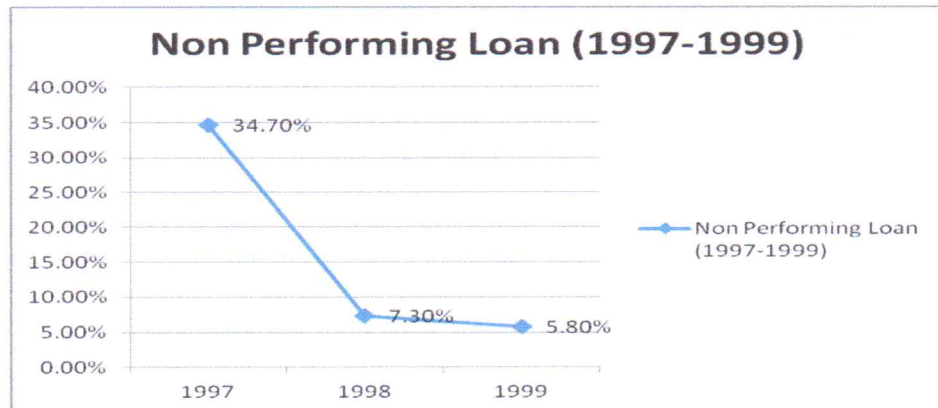
Conditions of the 2007-2009 financial crisis, especially the exchange rate is not as severe as during the 1997-1999 financial crisis as can be seen in the two graphs above

**Financial Liquidity (1997-1999) and (2007-2009) .**

The level of bank liquidity can be reflected either by the ratio of non-performing loans, non-performing loan levels are regulated in a government regulation is not to exceed 5%, if more than these limits, the bank would fall into the category of government oversight.

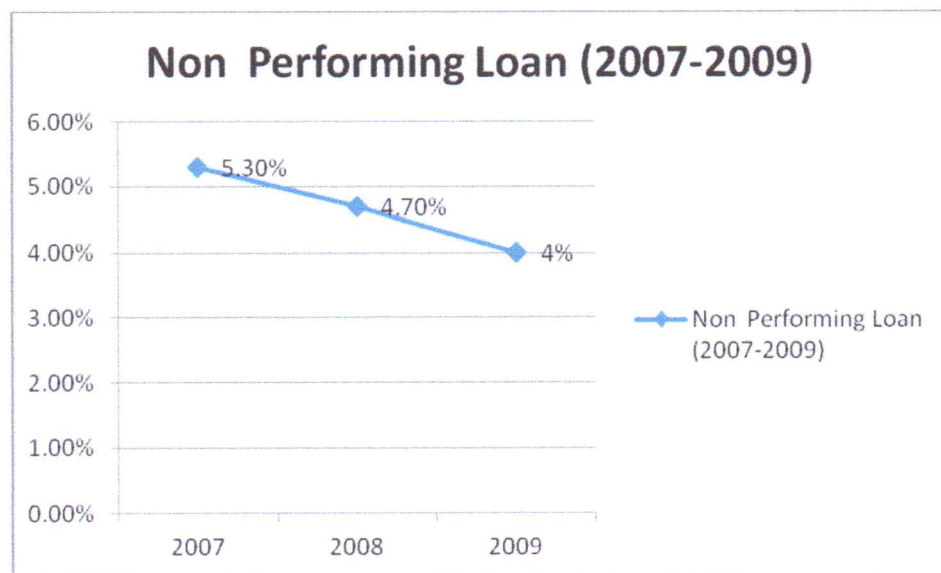


Figure 4.6



Source: Indonesia Financial Statistics, 2015

Figure 4.7



Source: Finance Minister, 2010

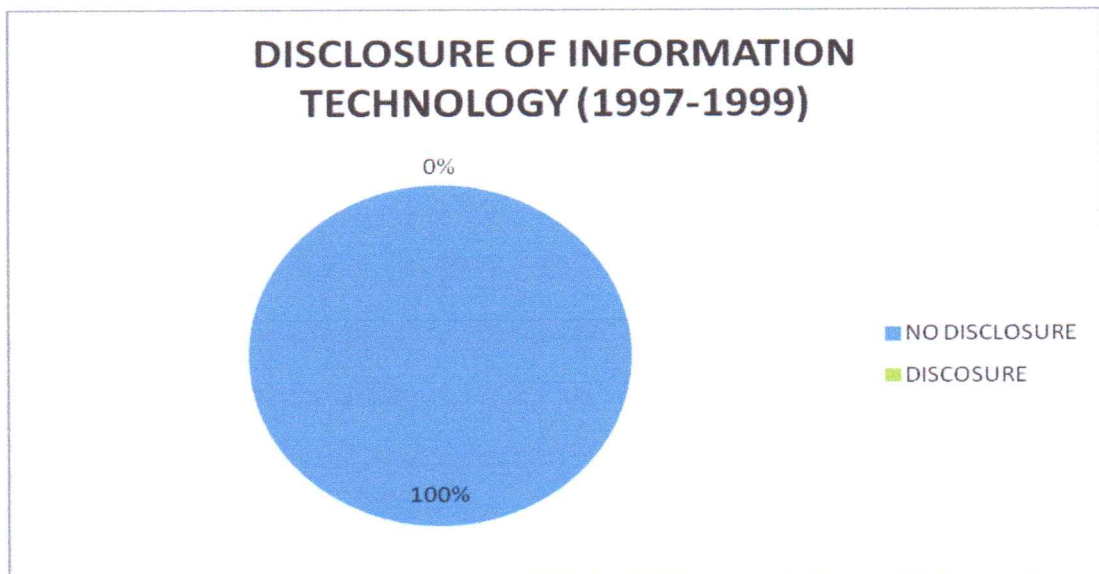
Non-performing loans 2007-2009 period indicates the value that is in compliance with government regulations is not more than 5%, NPL is more controlled conditions during this period. :



**Information technology (1997-1999) and (2007-2009).**

The development of information technology banking world is very crucial due to the adequate technology with a positive impact among others, bank security systems more secure, confidential information related to customers can be maintained, this will increase customer confidence in the credibility of a bank. Disclosure of information technology in the financial statements look very small or almost non-existent, because of that in 1997 the absence of government regulations related to disclosure of the development of information technology. In the period 1997 and before 1997 the emphasis disclosure and market focus only on presentation of the financial statements and the value of profits as its exposure

**Figure 4.8**

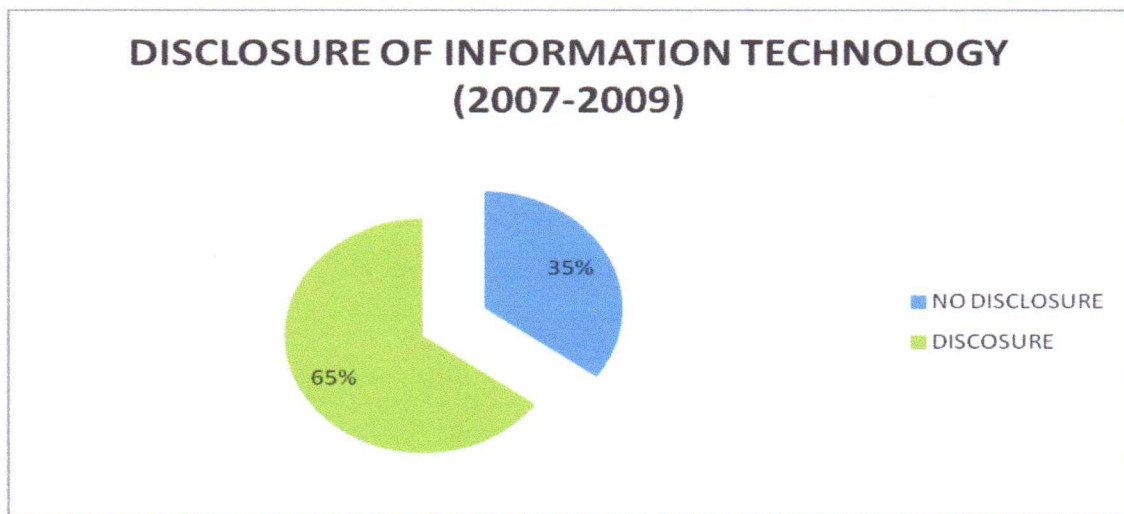


In the period 2007-2009 can be seen in the chart below that the awareness of the presentation of the financial statements related to the development of technology



infomassi increases until it is shown from the study by 65% already do the disclosure of banking technology in its annual report. .

Figure 4.9



35% of banking the sample in this study have not made disclosures related to information technology, this suggests that in this period there are several banks did not disclose improvement the quality of information technology in its annual report, it is expected that in subsequent years the awareness of related companies this disclosure will increase, this is because that now on we are becoming sophisticated investors, which means that the earnings disclosure is not merely the most important thing is disclosed

**Marketing Development (1997-1999) and (2007-2009).**

Marketing risk in this study uses the approach of total marketing expense over total expense. This approach illustrates how much companies pay attention to the marketing of banking products as an innovative form of signal to the capital market.





The 1997-1999 period is shown in the diagram that the total expense of the company by 9% allocated costs related to marketing and advertisement.

Figure 4.10

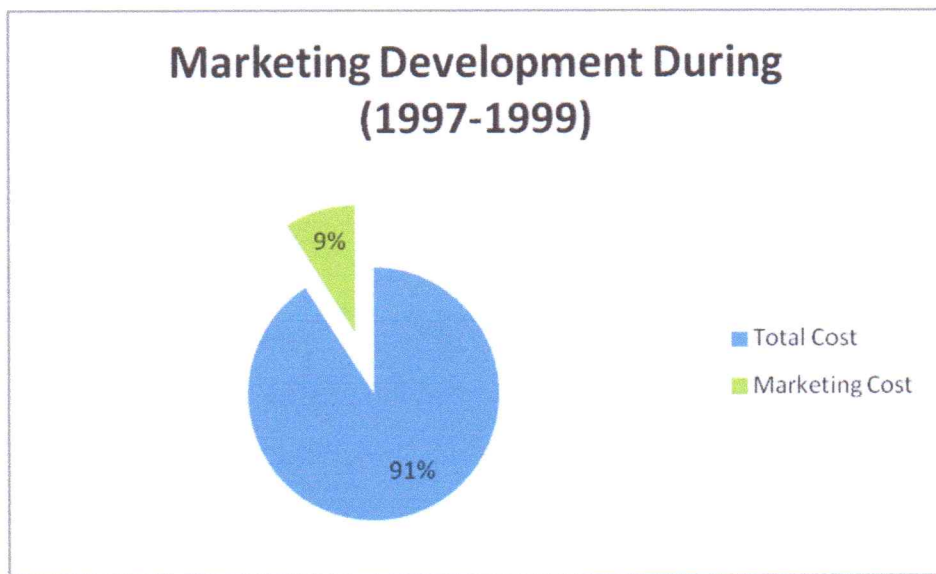
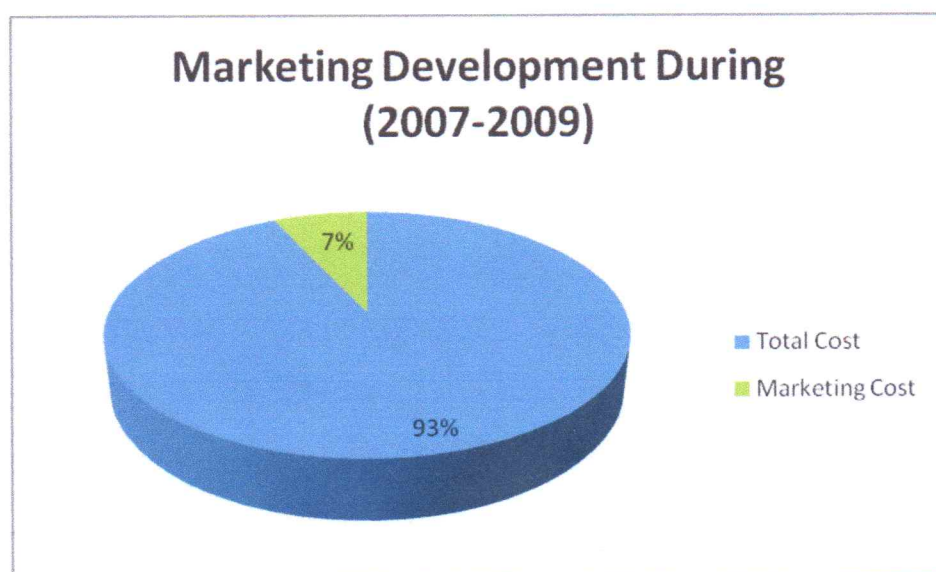


Figure 4.11



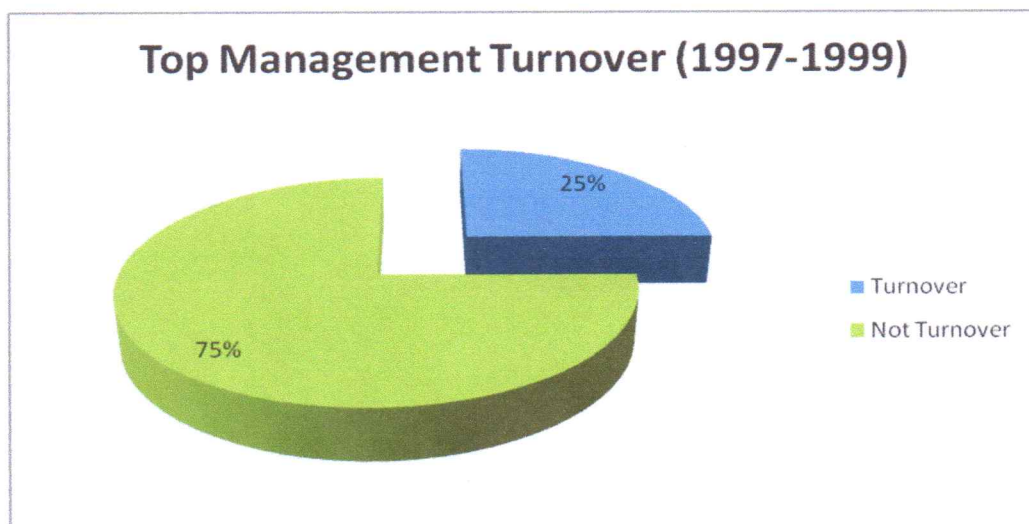


Period 2007-2009 financial crisis illustrates the increasingly smaller costs incurred to focus on advertising and marketing costs, this indicates that the possibility of shifting some expense to be prioritized against other more spending priorities. Of the total sample of banking companies into the sample indicated that 7% of the total marketing budget allocated corporate expense on average

**Top management turnover (1997-1999) and (2007-2009).**

In the study (ntim., *Et al*, 2013) top management turnover is one form of business risk, top management turnover in this research focused on the turnover in the composition of the board of directors. Board of directors is an important part in the company's operations with the duties and responsibilities that are will guarantee the going concern concept or in this case is long term perspective. The changes of board of directors if not done with carefully and do not pay attention to "the right men in the right place" will affect the sustainability of the company.

**Figure 4.12**





From the diagram above is shown by 25% of companies in the time period from 1997 to 1999 make changes the composition of the board of directors, the remaining 75% have does not make changes in their board of directors composition.

Figure 4.13

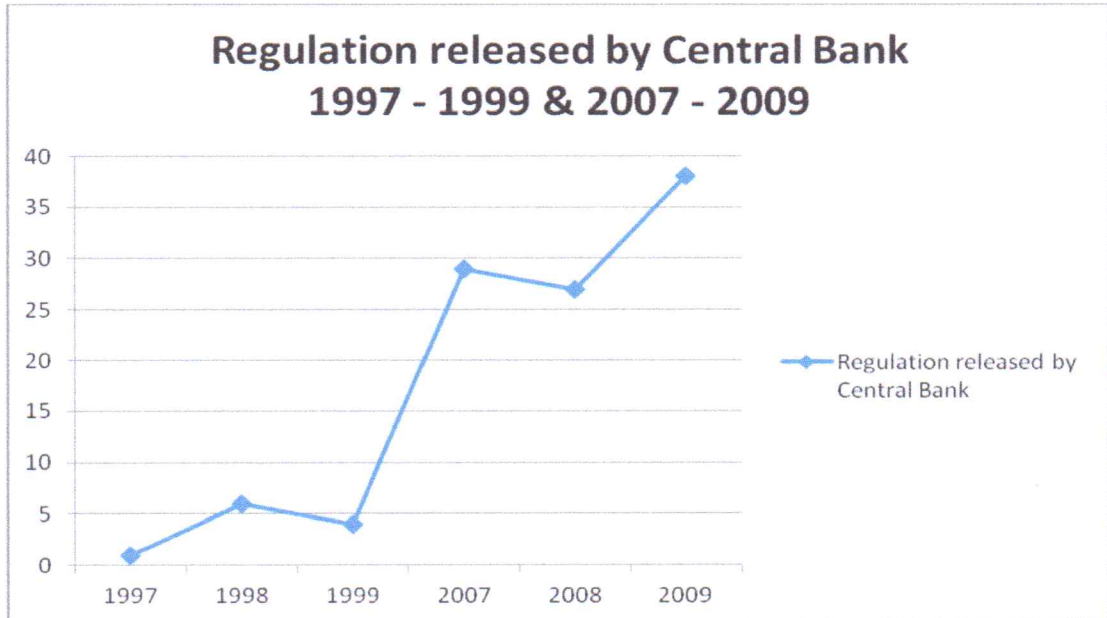


Period 2007-2009 financial crisis on average companies were changing the composition of the board of directors almost doubled compared to the period 1997-1999 financial crisis that is by 46% and the remaining 54% of companies does not make changes in composition of board of directors.



**Regulation (1997-1999) and (2007-2009)**

**Figure 4.14**



Source: Indonesia financial statistik

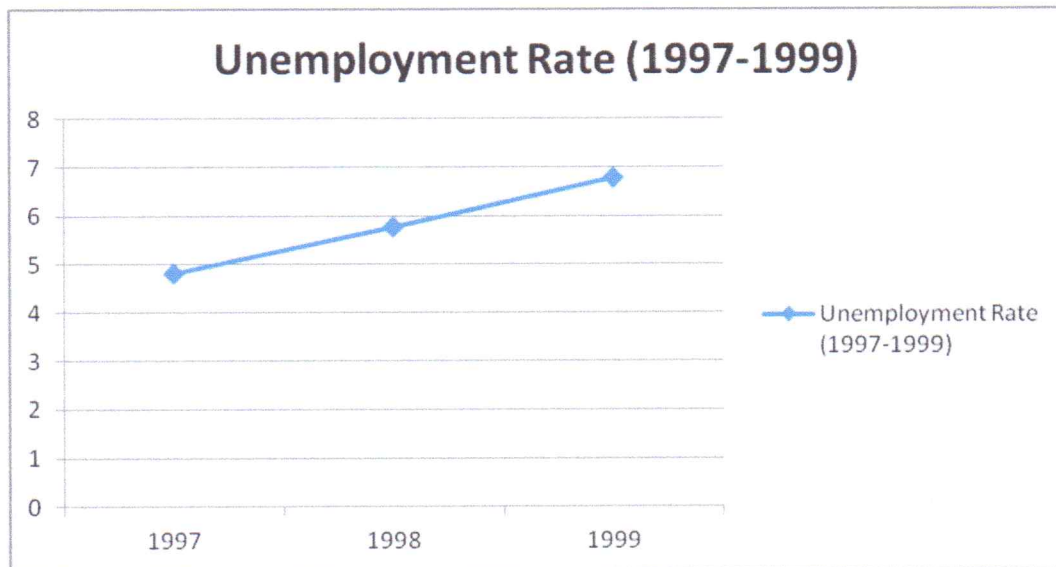
Regulations in the banking industry is very crucial, this is because the banks are financial institutions that manage fund and contribute greatly to the liquidity of a country. Regulation risk Ntim.,*Et al*, 2013 included regulation as a strategic risk. Regulations on the one side is to provide protection to customers but on the other side regulations may limit the movement of banking itself. The graph above is an upward trend in total regulations issued only by the central bank, can be seen the movement from the year 1997-2009 there is a tendency increasing trend as a form of protection for customers and the banking industry in Indonesia.



### Unemployment (1997-1999) and (2007-2009)

Unemployment rate is the unemployment rate of the state in the productive working age, the higher the unemployment rate will lead to increasingly smaller allocation of funds raised by the community to set aside part of their income in savings. With the growing size of public funds into the banking industry, it will cause the velocity of money becomes maximum so that the allocation of the banking industry turnover will increase in order to provide loans compared with the money that comes in the form of savings.

Figure 4.15

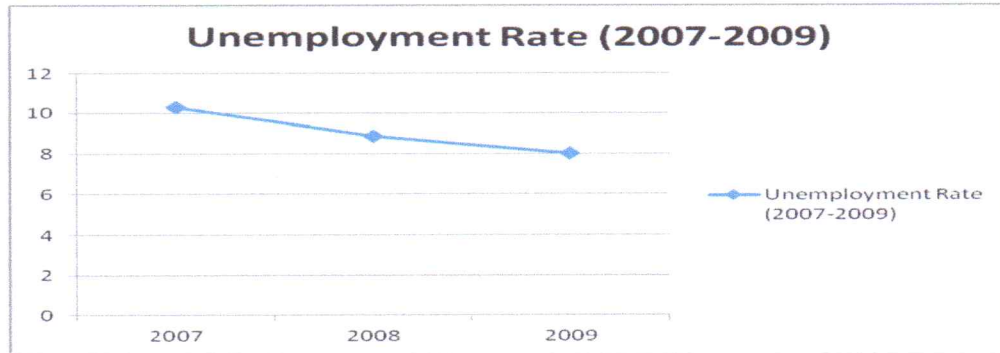


Source: Indonesia Financial Statistik 2015.

Financial crisis period 1997-1999 showed an increasing trend, this would allow due in 1997 and 1998 the Indonesian banking industry suffered the heaviest shocks to the closure of some commercial bank



Figure 4.16



Source: Indonesia Financial Statistik 2015.

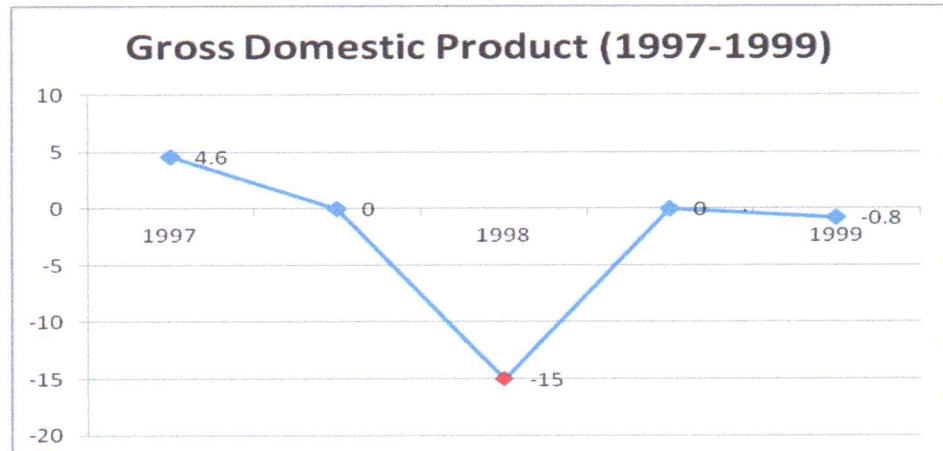
While the trend reversed from the condition shown the 2007-2009 period with the unemployment rate declining, it indicates that employment opportunities are increasing and shown with improvement with the unemployment rate

#### **Gross Domestic Product (1997) and (2007-2009)**

Gross domestic product is the value of a country overall output of goods and services during one fiscal year. During the period 1997-1999, period of 1997 with the level of GDP at the level of -15, this is consistent with the state of the world economy hit hard by the global financial crisis, the situation improved with the increase in GDP and stood at -0.8



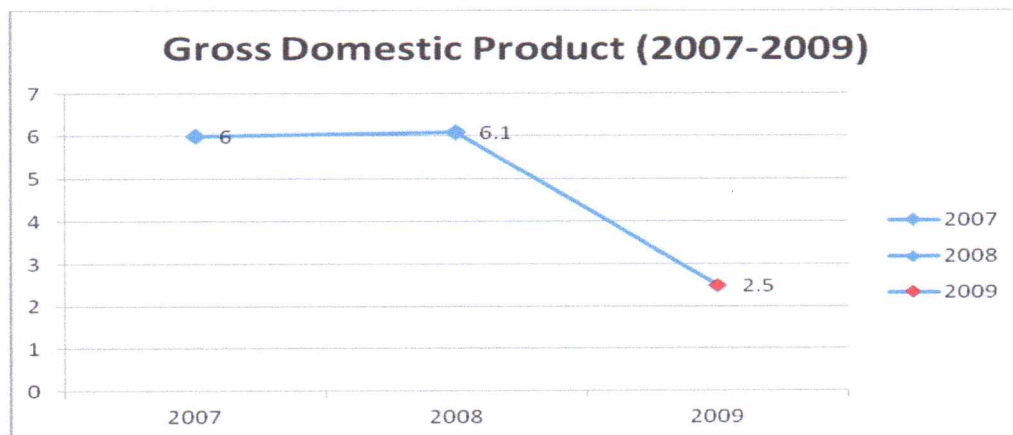
Figure 4.17



Source: Indonesia Financial Statistik 2015.

In the period 2007-2009, worsening conditions are at the end of 2009 with the level of GDP was at 2.5 from the previous one in 2008 and 2007 were in the range of level 6

Figure 4.18



Source: Indonesia Financial Statistik 2015.



3. To what extent are the significant differences in terms behaviour of disclosure by banks for the period 1997-1999 and 2007-2009 financial crisis?

Based on the discussion on the behavior of corporate risk disclosure during the financial crisis period of 1997-1999 and 2007-2009, it can be concluded that there are significant differences related to disclosure of corporate risk, as followed:

- a. Information Technology Disclosure
  - b. Turnover in top management
  - c. Regulations released by the central bank
4. Based on the findings what: Contingency model for banks to minimize losses in times of financial crisis?

**Table 1 .Model Summary**

<b>Model</b>	<b>R</b>	<b>R Square</b>	<b>Adjusted R Square</b>	<b>Std. Error of the Estimate</b>
1 (Dep Var: IRR)	.0396	.157	.106	.15700
2 (Dep Var: ERR)	.653	.427	.392	.0457
3 (Dep Var: LR)	.718	.516	.485	.69253

Predictors: (Constant), LogBankCod, LogYear, LogMarketing, LogRegulation, LogUnemployment, LogGDP





Table 1 presents the coefficient of determination is the ability to explain variation of independent variables affect the dependent variable. Of the three contingency models to minimize losses in times of financial crisis, the third model or liquidity risk exists at R square the highest of 52%, in this model suggests that simultaneous independent variables consisting of the marketing risk, regulation, risk, employment risk and GDP risk can explain the variables that affect liquidity, there is still 48% of other variables that may affect the bank liquidity not captured in this study.

Model 1 with the dependent variable Interest rate risk has the ability to explain the smallest is about 16%, in this model indicate simultaneous independent variables consisting of the marketing risk, regulation, risk, employment risk and GDP risk can explain the variables that influence the interest rate risk, still there are 84% of other variables that can affect the interest rate risk that is not captured in the study

**Table 2 ANOVA**

<b>Model</b>	<b>Sum of Squares</b>	<b>df</b>	<b>Mean Square</b>	<b>F</b>	<b>Sig</b>
1. Regression	.455	6	.076	3.077	.008 <sup>1</sup>
Residual	2.440	99	.025		
Total	2.895	105			
2. Regression	.153	6	.025	12.294	.000 <sup>2</sup>
Residual	.205	99	.002		
Total	.357	105			
3. Regression	49.391	6	8.232	17.301	.000 <sup>3</sup>
Residual	46.601	99	.483		
Total	95.752	102			



Predictors: (Constant), LogBankCod, LogYear, LogMarketing, LogRegulation, LogUnemployment, LogGDP

1. Dependent Variable: LogIRR
2. Dependent Variable: LogERR
3. Dependent Variable: LogLR

Table 2 presents the goodness of the model test, from all teh contingency model with the dependent variable interest rate risk, exchange rate risk and liquidity risk have a significance level of 1% and, this shows that the linear regression model estimated worth is used to describe the effect of the marketing risk, regulation risk, risk unemployment and GDP risk against interest rate risk, exchange rate risk and liquidity risk.

**Table 3**  
**Coefficient Model 1**

Model	B	Standard Error	Beta	t	Sig
1. (Constant)	-.107	.251	0	-.426	.671
LogBankCod	.127	.042	.305	3.007	.003*
LogYear	-.137	.131	-.331	-1.050	.296
LogMarketing	.024	.019	.127	1.250	.214
LogRegulation	.155	.105	.430	1.473	.144
LogUnemploy	-.142	.338	-.083	-.420	.675
LogGDP	-.012	.058	-.022	-.213	.832

\* Significant at 1%  
\*\* Significant at 5%

Dependent Variabel: LogIRR

The analysis of variance for model 1 has a significant level of .008 where F = 3.077 and this supported the relationship between independent and dependent variables. The R Square of .157 explains that approximately 16 percent of the



variation in the response variable can be explained by the model presented, while the remaining eighty four percent can be explained by the confounding variable.

The Contingency Model for bank to minimize losses in term of Interest Rate

Risk followed:

Log (IRR) = F = 3.077 Sig= 0.08	- .107	+ .127	(LogBankCod)	-.137(LogYear)	+.0224
	(LogMarketing) +				
	t -.426	3.007		-1.050	1.250
	.671	.003		.296	.214
	.155(LogRegulation)	-.142	(LogUnemployment)	-.012	(LogGDP).....
	eq1				
	1.473		-.420		-.213
	.144		.675		.832

The derived regression model to predict the value of IRR is shown as equation 1. It is affected by the independent variables that are: logBank, logYear, logMarketing, LogRegulation, logUnemploymenty and logGDP.

Constant = -.107 The constant= -.107 is the minimum value of IRR are at any point in times of the regression model. this value changes for every changes in the independent variables that are included in the regression model. IRR is significant at  $\alpha = .01$  (sig= .008), it is a predictive minimum value of IRR.

LogBank. Bank is a predictive variable has a coefficient equal t 3.007, that is for every unit changes in the value of the bank, IRR changes by 3.007 test of significance as an intervening variables is highly significant at  $\alpha = .01$  (sig=.003) that is, bank significantly affects IRR, its effect on IRR is positive, or in direct proportion. Bank coding is the numbering of total bank sampled in this study, the positive



relationship indicates that the growing number of commercial banks will affect the exchange rate risk. , it is possible because of the increasing number of banks, there will be competition in interest rates in order to increase the number customers of a bank, when interest rates on inter-bank competition is not monitored intensively then cumulatively it can be impact on financial risk.

LogYear. Year is predictive variable has a coefficient equal t. -1.050, that is for every unit changes in the value of the year, IRR changes by -1.050. Test of significance as an intervening variables is not significant.

LogMarketing. Marketing is predictive variable has a coefficient equal t 1.250, that is for every unit changes in the value of the marketing, IRR changes by 1.250. Test of significance as an intervening variables is not significant.

Log Regulation. Regulation risk is predictive variable has a coefficient equal t. 1.473, that is for every unit changes in the value of the regulation, IRR changes by 1.473. Test of significance as an intervening variables is not significant.

LogUnemployment. Unemployment rate is predictive variable has a coefficient equal t. -.420, that is for every unit changes in the value of the unemployment rate, IRR changes by -.420. Test of significance as an intervening variables is not significant.

LogGDP. Gross Domestic Product risk is predictive variable has a coefficient equal t -.213, that is for every unit changes in the value of the GDP, IRR changes by -.213. Test of significance as an intervening variables is not significant.



**Table 4**  
**Coefficients Model 2**

Model	B	Standard Error	Beta	t	Sig
2. (Constant)	7.514	.073	0	103.568	.000
LogBank Cod	.049	.012	.335	4.000	.000*
LogYear	-.083	.038	-.572	-2.204	.030**
LogMarketing	.003	.006	.047	.562	.576
LogRegulation	.012	.030	.098	.406	.686
LogUnemploy	.511	.098	.853	5.228	.000*
LogGDP	.015	.017	.078	.921	.359

\* Significant at 1%  
\*\* Significant at 5%

Dependent Variabel: LogERR

The analysis of variance for model 2 has a significant level of .000 where F = 12.294 and this supported the relationship between independent and dependent variables. The R Square of .427 explains that approximately 43 percent of the variation in the response variable can be explained by the model presented, while the remaining fifty seven percent can be explained by the confounding variable.

The Contingency Model for bank to minimize losses in term of Exchange Rate Risk followed:

Log(ERR) = F = 12.294 Sig= 0.00	7.514	+	.049	(LogBankCod)	-.083	(LogYear)	+.0003
				(LogMarketing) +			
	t	103.568	4.000		-2.204	.562	
		.000	.000		.030	.576	
		.012(LogRegulation)		+.511	(LogUnempolyment)		+.015
		(LogGDP)...eq.2					
	.406		-5.228		.921		
	.686		.000		.359		



The derived regression model to predict the value of ERR is shown as equation 2. It is affected by the independent variables that are: logBank, logYear, logMarketing, logRegulation, logUnemployment and logGDP.

Constant = 7.514. the constant= 7.514 is the minimum value of ERR are at any point in times of the regression model. this value changes for every changes in the independent variables that are included in the regression model. ERR is significant at  $\alpha = .01$  (sig= .000), it is a predictive minimum value of ERR.

LogBank. Bank is a predictive variable has a coefficient equal t. 049, that is for every unit changes in the value of the bank, ERR changes by .049 test of significance as an intervening variables is highly significant at  $\alpha = .01$  (sig=.000) that is, bank significantly affects ERR, its effect on ERR is positive, or in direct proportion. Bank coding is the numbering of total bank sampled in this study, the positive relationship indicates that the growing number of commercial banks will affect the exchange rate risk.

LogYear. Year is predictive variable has a coefficient equal t. -2.204, that is for every unit changes in the value of the year, ERR changes by -2.204. Test of significance as an intervening variables is highly significant at  $\alpha = .05$  (sig=.03) that is, bank significantly affects ERR, its effect on ERR is negative, or in inverse proportion.

LogMarketing. Marketing is predictive variable has a coefficient equal t. .562, that is for every unit changes in the value of the marketing, ERR changes by .562. Test of significance as an intervening variables is not significant.



Log Regulation. Regulation risk is predictive variable has a coefficient equal t. .406, that is for every unit changes in the value of the regulation, ERR changes by .406. Test of significance as an intervening variables is not significant.

LogUnemployment. Unemployment rate is predictive variable has a coefficient equal t. -5.228, that is for every unit changes in the value of the unemployment rate, ERR changes by -5.228. Test of significance as an intervening variables is highly significant at  $\alpha = .01$  (sig=.000) that is, unemployment rate significantly affects ERR, its effect on ERR is negative, or in inverse proportion. significant associations negative points to the fact that the higher the unemployment rate will actually reduce the level of exchange rate risk, with the unemployment rate which is higher then one option to fund their life is to do a loan either consumer or business loans, it this adds the ratio turnover local currency againts foreign currency in their supply chain, local currecy higher spins will be used to purchase raw materials, basic needs will encourage the uptake of local production, which will indirectly strengthen fundamental economy of a country. It is not interpreted naive that higher unemployment will have an impact on increasingly smaller risk of exchange nil, the balance between the two variables is also still need to be consider.

LogGDP. Gross Domestic Product risk is predictive variable has a coefficient equal t. .921, that is for every unit changes in the value of the GDP, ERR changes by .921. Test of significance as an intervening variables is not significant.



**Table 5**  
**Coefficient Model 3**

Model	B	Standard Error	Beta	t	Sig
3. (Constant)	-	1.159	0	-1.828	.071
LogBank Cod	2.119	.187	-.027	-.343	.732
LogYear	-.064	.618	.566	2.338	.021**
LogMarketing	1.444	.086	.061	.775	.441
LogRegulation	.066	.512	.105	.479	.633
LogUnemploy	.245	1.522	.053	.377	.707
LogGDP	.574	.261	-.004	-.050	.960
	-.013				

\* Significant at 1%  
\*\* Significant at 5%

Dependent Variable: LogLR

The analysis of variance for model 1 has a significant level of .000 where F = 17.301 and this supported the relationship between independent and dependent variables. The R Square of .516 explains that approximately 52 percent of the variation in the response variable can be explained by the model presented, while the remaining forty eight percent can be explained by the confounding variable.

The Contingency Model for bank to minimize losses in term of Liquidity Risk followed:

Log(LR) =	-2.119	-.064	(LogBankCod)	+	1.444	(LogYear)	+.066
F = 17.031	(LogMarketing)	+					
Sig= 0.00	t -1.828	-3.43		2.338		.775	
	.071	.732		.021		.441	
	.245	(LogRegulation)	+.574	(LogUnempolyment)			-.013
	(LogGDP)....eq3						
	.479		-.377			-.050	
	.633		.707			.960	





The derived regression model to predict the value of LR is shown as equation 3. It is affected by the independent variables that are: logBank, logYear, logMarketing, LogRegulation, logTopmanagement, logUnemploymenty and logGDP.

Constant = -.2119. the constant= -2.119 is the minimum value of LR are at any point in times of the regression model. this value changes for every changes in the independent variables that are included in the regression model. LR is significant at  $\alpha = .01$  (sig= .000), it is a predictive minimum value of LR.

LogBank. Bank is a predictive variable has a coefficient equal t -.343, that is for every unit changes in the value of the bank, LR changes by -.343 test of significance as an intervening variables is not significant.

LogYear. Year is predictive variable has a coefficient equal t. 2.338, that is for every unit changes in the value of the year, LR changes by 2.338. Test of significance as an intervening variables is highly significant at  $\alpha = .05$  (sig=.02) that is, bank significantly affects LR, its effect on ERR is negative, or in inverse proportion

LogMarketing. Marketing is predictive variable has a coefficient equal t .775, that is for every unit changes in the value of the marketing, LR changes by .775. Test of significance as an intervening variables is not significant.

Log Regulation. Regulation risk is predictive variable has a coefficient equal t. .479, that is for every unit changes in the value of the regulation, LR changes by .479. Test of significance as an intervening variables is not significant.



LogUnemployment. Unemployment rate is predictive variable has a coefficient equal t.  $-0.377$ , that is for every unit changes in the value of the unemployment rate, LR changes by  $-0.377$ . Test of significance as an intervening variables is not significant.

LogGDP. Gross Domestic Product risk is predictive variable has a coefficient equal t  $-0.050$ , that is for every unit changes in the value of the GDP, LR changes by  $-0.050$ . Test of significance as an intervening variables is not significant

**Table 6**  
**Regression Contingency Model**  
**Minimizing Corporate Risk Disclosure**  
**During financial Crisis**

Corporate Risk Disclosures	Preventive Action	Corrective Action	Expected Outcome
1 Interest Rate Risk			
1.1 Constant (-)		The contingency model will be still applicable if several assumptions keep: number of banks in avarege are 108 banks, average of GDP is around 7.4 for, financial crisis periode is 6 years	
1.2 Bank (+)	The government is expected to limit the growth of new bank		Fundamental local banks that are more stronger
1.3 Year (-)		Years effects proven affects simultaneously the IRR, the need for sustainable government policies between periods	Regular evaluation of the growth of the banking performance indicators
1.4 Marketing (+)	New innovation		Increased



	through marketing technology so that people who are in town and border can have easy access to finance		activity of the banking marketing as a form of public funds absorption
1.5 Regulation (+)	The new regulation that can regulate and limit the deviation of the difference in interest rates between banks		Fundamental localbanks that are more stronger
1.6 Unemployment (-)		<ul style="list-style-type: none"> <li>- Improve technology and education system</li> <li>- Promote the development of the agricultural and manufacturing sectors</li> <li>- Slowing the rate of population growth</li> </ul>	Increasing the number of qualified labor
1.7 GDP (-)		<ul style="list-style-type: none"> <li>- Improved regulation of foreign investment to further facilitate foreign parties in investing in the country</li> <li>- Evaluation of the curved domestic debt management policy in order to boost foreign investment</li> </ul>	An increase in GDP of the country so that local products can be absorbed and increase the turnover of local currency
<b>2. Exchange Rate Risk</b>			
1.1 Constant (+)		The contingency model will be still applicable if several assumptions keep: number of banks in avarege are 108 banks, average of GDP	



		is around 7.4 for, financial crisis periode is 6 years	
1.2 Bank (+)	Increase interest rate on lending		Fundamental localbanks that are more stronger
1.3 Year (-)		Improve investment sceario	Regular evaluation of the growth of the banking performance indicators
1.4 Marketing (+)	Attract foreign and domestic investment		Increased activity of the banking marketing as a form of public funds absorption
1.5 Regulation (+)	More spending on infrasturcture		Fundamental localbanks that are more stronger
1.6 Unemployment (+)	- Create empolyment		Increasing the number of qualified labor
1.7 GDP (+)	Attractive lending to less developed industries		An increase in GDP of the country so that local products can be absorbed and increase the turnover of local currency
<b>3. Liquidity Risk</b>			
1.1 Constant (-)		The contingency model will be still applicable if	



		several assumptions keep: number of banks in avarege are 108 banks, average of GDP is around 7.4 for, financial crisis periode is 6 years	
1.2 Bank (-)		Evaluate the indicators of the health of banks so that the banks are already listed can be qualified (CAR, NPL)	Fundamental localbanks that are more stronger
1.3 Year (+)		Years effects proven affects simultaneously the LR, the need for sustainable government policies between periods	Regular evaluation of the growth of the banking performance indicators
1.4 Marketing (+)	Policies to improve the allocation of marketing costs in the company's budget		Increased activity of the banking marketing as a form of public funds absorption
1.5 Regulation (+)	Released new regulation and tighten in terms of giving credit/loan only for qualified customers		Fundamental localbanks that are more stronger
1.6Unemployment (+)	<ul style="list-style-type: none"> <li>- Creating new field jobs.</li> <li>- Help with the long-term loan capital</li> <li>- Build a social institution that can guarantee the life of the unemployed</li> </ul>	-	Increasing the number of qualified labor
1.7 GDP (-)		- Improvements in the	An increase



		quality of human resources. - Utilization of natural resources more effectively and efficiently	in GDP of the country so that local products can be absorbed and increase the turnover of local currency
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CHAPTER 5

SUMMARY, CONCLUSION AND RECOMENDATIONS

This chapter presented the summary, conclusions and recommendations of this study. The primary focus of this study was to find a regression contingency model based on corporate risk disclsoure during financial crisis.

Spesifically, the study addressed the following:

**1. What is risk profile of banks in terms of corporate risk disclosure in following areas:**

1.1 Financial Risk:

- 1.1.1 Interest Rate Risk;
- 1.1.2 Exchange Rate Risk; and
- 1.1.3 Liquidity Risk?

1.2 Business Risk:

- 1.2.1 Information Technology Risk;
- 1.2.2 Marketing Risk; and
- 1.2.3 Top Management Risk?

1.3 Strategic Risk:

- 1.3.1 Regulation Risk
- 1.3.2 Unemployment Rate; and
- 1.3.3 GDP Growth?

**Finding.** Referring to Table 1, the disclosure of business risk (information technology risk, marketing risk and the top management risk) and stategic risk (regulation risk,



the unemployment rate and GDP growth) has a coefficient of determination of the most high against liquidity risk with r-square highest 52%. This suggests that the 6 risks inherent in the business risk and strategic risk is able to describe 52% to liquidity risk. The second sequence is followed by the exchange rate risk with the ability to explain the variable business risk and risk strategic against exchange rate risk by 43%. With the lowest coefficient of determination that the ability to explain the variable business risk and strategic risk against interest rate risk with r-square of 16%.

**Conclusion.** refer to Table 1 indicated that the disclosures related to liquidity risk become a priority in the company's disclosure of risks. Some of the variables are closely related and need the attention of the company that is information technology, marketing risk, top management risk, risk regulation, unemployment rate and Gross Domestic Product growth.

**Recommendation.** For the contingency model, to adopt the contingency model in this study its suggested to keep several assumptions that already mentioned in this study, the model developed with the approach of business risk and strategic risk assumptions.

## **2. How does the behavior of corporate risk disclosure during financial crisis period 1997-1999 and 2007-2009**

**Finding.** The findings of the study indicated resources there is still some risk disclosures variable that needs attention and is considered less, top management





turnover between the periods 1997-1999 and 2007-2009 financial crisis, nearly 50% of companies in the period 2007-2009 were changing the composition of the board of director. Disclosure of Information technology companies sampled in this study at 35%, it is expected that the future disclosure of the development of information technology as a tool of good governance can be further improved. Marketing costs as a reflection of the marketing firm still is around 7% - 9% of the total cost over the period of 1997 -2009.

**Conclusion.** Top management is proxied by the turn of the directors become crucial point primarily in the period of financial crisis. Important point is also focused on the development of marketing during the financial crisis period, this is because the company's main focus is the financial savings compared to transform marketing expenses.

**Recommendation.** For banks, to adopt the contingency model then it will be needed other indicator that might be affect financial risk. CAR (cumulative adequacy ratio), LDR (Loan deposit ratio) and other bank performance indicators.

**3. To what extent and the significant differences in terms behaviour of disclosure by banks for the period 1997-1999 and 2007-2009 financial crisis?**

**Finding.** Based on the discussion on the behavior of corporate risk disclosure during the financial crisis period of 1997-1999 and 2007-2009, there are significant differences related to disclosure of corporate risk, as followed:



- a. Information Technology Disclosure
- b. Turnover in top management
- c. Regulations released by the central bank

**Conclusion.** In a period of financial crisis, the disclosure of the expected behavior is not only focused on financial factors, the need for attention to another aspect of the company is the strategic aspects and aspects of the business.

**Recommendation.** For BASEL committee, the supervision implementation of corporate disclosure need to be monitoring, several indicator for example, interest rate already give the signal will be increased before the financial crisis event.

#### 4. Contingency model for banks to minimize losses in times of financial crisis?

**Finding.** Based on finding and result of F-test statistic, it is concluded that there are three significant contingency models in the period 1997-1999 and 2007-2009 financial crisis. All three models support the hypothesis that the grouping of business risk and risk strategic affect the financial risk grouping consisting of interest rate risk, exchange rate risk and risk liquidity.

**Conclusion.** It was an evident that using historical data in times financial crisis 1997-1999 and 2007-2009, it showed that the information technology, marketing, top management turnover, regulation risk, unemployment rate and GDP can explain for each dependen variable interest rate risk, exchange rate risk and liquidity risk. The contingency models can be tools and its applicable but limited for several assumptions.



**Recommendation.** For future researcher are, to engage in an extensive research to study more details for predictive variables affect financial risk.



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