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FIT AND PROPER TEST: A DETERMINANT OF GOOD CORPORATE GOVERNANCE BANKING INDUSTRY IN INDONESIA

¹Devy M. Puspitasari, ²Sotarduga Napitupulu, ³Djoko Roespinoedji

^{1,3}Faculty of Economic and Business, Widyatama University, Indonesia

²Financial Service Authorities Indonesia, ¹devy.mawarnie@widyatama.ac.id

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Keywords: Good Corporate Governance, Structural Equation Model (SEM), fit and proper test.

ABSTRACT

This study aims to identify the determinants and effectiveness of good corporate governance (GCG) practices in Indonesia banks. This study used verification method based on some theories. The analysis technique used the presentation of descriptive statistics and the Structural Equation Model (SEM) for factor analysis and calculation. The results showed that there are weaknesses in upholding the principles of good corporate governance (GCG) in Indonesian banking related to aspects of leadership and business areas. The implementation of good corporate governance (GCG) in banking sector is very essential to build the trust of society and international world as an absolute requirement to ensure the soundness of the financial institutions. This research using of fit and proper test as a moderate variable and determinant in enhancement the implementation of good corporate governance (GCG) for Indonesia banking industry.

Keywords: Good Corporate Governance, Structural Equation Model (SEM), fit and proper test.

INTRODUCTION

Background

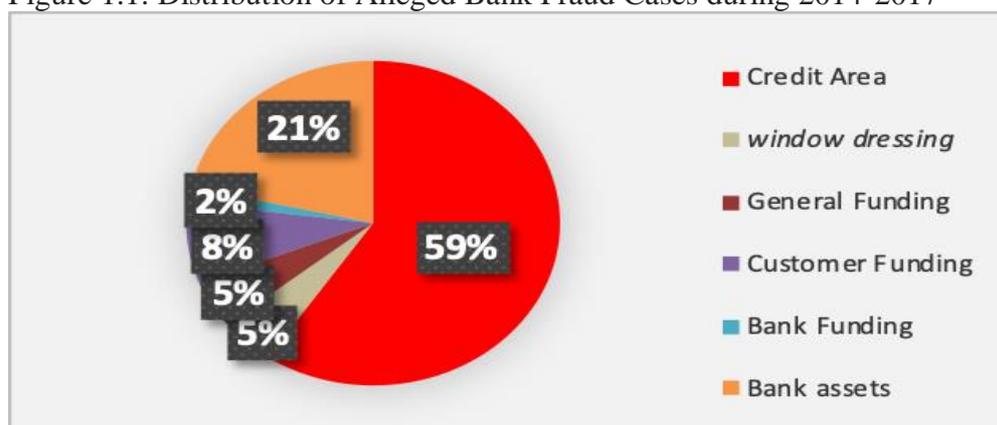
The financial crisis that hit the United States and Europe in 2008 led to the emergence of legal or bankruptcy issues for several large and well-known financial institutions in America (Lehman Brothers, Bear Stearns, Citigroup, Merrill Lynch) and in Europe (Royal Bank of Scotland, HBOS, Continent Hypo Real Estate, The German State Bank, Dexia, Fortis, and UBS). This condition was caused by some heavy cases like fraud, accounting scandals, and business failures occurring all over the world (Djokic, *Det al.*, 2016). Besides that, it showed that there were some weaknesses in the current global

system and corporate governance in contributing with sustainable business in the sustainable economy (Lenssenet *al.*,2014).

After the crisis passed, the issue of good corporate governance (GCG) became a major concern in all sectors. Moreover, there were a lot of countries in the world has been followed the steps of United States and Europe in applying the program of good corporate governance (GCG) in the state level through National Code on Corporate Governance. The forms of practicing of that program could be seen in some countries such as: the Netherland Corporate Governance Report (1997), the Code of Best Practice of Korean Corporate Governance (1999), the Guidance of Corporate Governance for Philippines Banking (2001), and the Guidance of Indonesia Corporate Governance (1999 and 2001). Since then, the practice of good corporate governance (GCG) also applied in banking sector at international level through creating the standards of corporate governance in a country.

In Indonesia, the formation of good corporate governance (GCG) was triggered by the monetary crisis during 1997-1998 whereas also affected the political condition (Puspitasari *et al.*, 2020). As additional information, the Asian Corporate Governance Association survey (2016) showed that Indonesia placed on the last position in the implementing of good corporate governance (GCG). After two years crisis, the issue of good corporate governance (GCG) in banking sector became an important focus for the government (Napitupulu *et al.*, 2020). Therefore, that government was trying to protect the stakeholders and to improve the compliance with law and code of conduct by pointing the Indonesia Financial Service Authority (OJK) as an institution that handle regulation relating with banking corporate governance. Based on the regulation number 55/POJK.03/2016 about Commercial Banks Corporate Governance, it stated that the implementation of corporate governance in banking sector must be based on 5 principles: transparency, accountability, responsibility, independency, and fairness.

Figure 1.1. Distribution of Alleged Bank Fraud Cases during 2014-2017

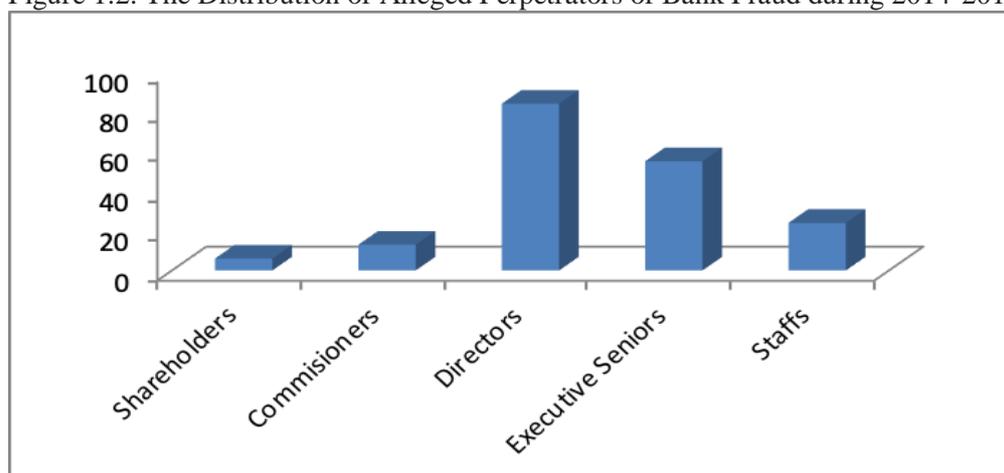


Source: Indonesia Financial Service Authority (OJK),2017

The implementation of good corporate governance (GCG) in Indonesia banking industries has been tainted by a number of deviations against the banking regulation or it can be called with bank fraud (Puspitasari *et al.*, 2015). According to Indonesia Financial Service Authority (OJK) survey, there were

six areas (figure 1.1) using for fraud committing namely: credit area, window dressing area, funding area, customer funding area, bank funding area, and bank assets area. Moreover, the perpetrators of that fraud can be seen in figure 1.2. These deviations showed a crucial weakness in banking internal system especially in leadership system and business environment associating with the managing system, controlling system, operational standard procedure (SOP), capability standard, and the integrity.

Figure 1.2. The Distribution of Alleged Perpetrators of Bank Fraud during 2014-2017



Source: Indonesia Financial Service Authority (OJK), 2017

In dealing with the banking fraud (Tipibank) problem, the study about the effectiveness determinants of the good corporate governance (GCG) practice in banking sector is much needed (Puspitasari, 2011). Besides that, the regulation of Indonesia Financial Service Authority Number 27/POJK.03/2016 (July 25th, 2016) has been arranged the fit and proper test as a tool to measure the ability and feasibility level of every staffs. Therefore, the more in-depth research about fit and proper test as a determinant of good corporate governance in Indonesia banking industries will be discussed in this research.

Research Limitation

The variables using in our current research is only limited to the determining variables that were applied in previous researches. In addition, these will be used as a determinant of the good corporate governance (GCG) quality in banking sector.

LITERATURE REVIEW

Previous Research

In supporting our current research, we used some previous researches both from local and international journals to learn what variables determine the quality of good corporate governance (GCG) for banking sector in Indonesia. At the beginning, Anggiriawan (2015) stated that leadership and organizational culture have been considered as determinant variables of good corporate governance (GCG). Second, ElKelish and Hassan (2015) declared that the voluntary disclosure of corporate governance greatly affects for the accuracy of stock prices. Third, Karmani et al. (2015) indicated that every

company that has good corporate governance (GCG) in providing the financial transparency will be possible to have the liquid market value. Fourth, Nazliatul et al. (2015) showed that the good implementation of corporate governance will affect the adoption of sustainability risk management program (based on Enron case). Fifth, Shukla et al. (2015) explained that the good corporate governance (GCG) will give a positive impact for the board effectiveness. Sixth, Widjayanti et al. (2015) analyzed that the leadership system will influence the assessment of corporate governance. Seventh, Duh et al. (2016) stated that the quality of good corporate governance (GCG) in Slovenia was affected by formal and informal regulation, recommendation, ethical code, corporate governance standard, and the corporate governance quality. Eighth, Tisna et al. (2016) pointed that good corporate governance (GCG) and company size gave a partial and simultaneous impact for corporate financial performance. Ninth, Triyono et al. (2016) described that institutional ownership gave a positive effect for the quality of good corporate governance, but managerial ownership gave a bad effect. At the end, Segara (2017) that morality and reliability can realize a good corporate governance (GCG) in creating the clean government motto.

The General Concept of Good Corporate Governance (GCG)

Good corporate governance (GCG) described a mechanism of economic and social resources through the involvement of (Widodo, 2001). He also stated that there were 9 characteristics of good corporate governance (GCG), namely: participation, rule of law, transparency, responsiveness, consensus orientation, equity, effectiveness and efficiency, accountability, and strategic vision. Besides that, the assessment of good corporate governance (GCG) will be evaluated from 4 aspects (Wheelen et al., 2015): ownership structure and influence, financial stakeholder right and relations, financial transparency and information disclosure, and board structure and process. Furthermore, companies or banks can choose the 5 qualities of good corporate governance (GCG) practice, i.e.: a) cost leadership, b) differentiation, c) focused cost leadership, d) focused differentiation, and e) integration cost leadership or differentiation.

The Banking Good Corporate Governance (GCG)

Linunga et al. (2014) argued that good corporate governance (GCG) must be applied in banking sector because of 4 reasons: 1) bank has a dominant position in the state financial system and an important function as a machine for the economical growth, 2) bank become a primary financial source in developing countries for almost all companies, 3) bank is recognized as a primary saving area for economy saving, and 4) there is a lot of developing countries applying liberalization system in order to privatize or disinvestment and to decrease the role of economy regulation. He also measures the banking corporate governance through 3 (three) dimensions: ownership structures, financial transparency and information disclosure, and management process and structures.

The Managing of Good Corporate Governance (GCG) in Indonesia Banking

The managing system of good corporate governance (GCG) in Indonesia banking sector is handled by the Financial Authority Service (OJK). Based on the regulation of this institution number 55/POJK.03/2016, it stated that the good corporate governance (GCG) in all public and conventional banking has been regulated. Moreover, Indonesia Bank has been published the regulation

number 11/33/PBI/2009 about the practice of good corporate governance (GCG) in Syariah Commercial Bank and General Unit. On March 17th, 2017, the Financial Authority Service (OJK) issued the letter of the good corporate governance (GCG) guidance for public banks. This letter explained the 5 detailed principles which known as TARIF i.e.: 1) Transparency (information disclosure), 2) Accountability (the clarity of functions and implementation of responsibilities), 3) Responsibility (the compliance of bank with applicable laws and regulations), 4) Independency (the professionalism of Bank management), and 5) Fairness (the justice and equality in fulfillment of shareholder rights and interest).

The Dimensions of Good Corporate Governance (GCG)

There are 8 dimensions using in the implementation of good corporate governance (GCG) as follows:

1. Company resource dimension

This dimension focuses on the company resource such as tangible assets, intangible assets, human resources, and organization capability (Puspitasari et al., 2015; Omerzel et al., 2011; Wheelen et al., 2012; Pearce et al., 2015; and Hitt et al., 2015).

2. Leadership dimension

This dimension lifts up leadership system especially transformational system in order to reach the mission and vision of company. Based on some literatures, this system assess the leaders based on their vision and quality, charismatic, inspiration, decision taking, intellectual stimulation, contingency award, behavior, speaking and language style, and ability to manage a company (Selznick, 1984; Bass et al., 1995; Plowman et al., 2007; and Stahl et al., 2018).

3. Unique capability dimension

The pressure of this dimension is a superior and specific ability in optimizing the company resources in producing the best products in winning the market competition. Some researchers stated this capability can be seen in some factors such as assets, company or organization capability, human resources, characteristic, innovation, location and competencies (Collins et al., 2005; Hit et al., 2007; Simonceska, 2010; Wheelen et al., 2015; and Pearce et al., 2015).

4. Organization culture dimension

The aim of this dimension is directing all human resources to work based on company values, ethical code, and corporate governance. The previous researches showed that there were several things using such as norms, organizational situation, organizational values, philosophy, regulation, trust, behavior, piety, integrity, and knowledge (Lutham, 1998; Triguno, 2000; Avicenna et al., 2012; and Pendke, 2013).

5. Business environment dimension

This dimension will give impacts for company. Some researchers stated that there were two types of environment, i.e.: external and internal environment (Kusmayadi,2008; Hitt et al., 2007; Wheelen et al.,2012; and Killeen,2012).

6. Business partnership dimension

The main point of this dimension is the cooperation system and procedure with other companies which have same vision in creating the high quality of products and services. Based on the adopted literatures, the primary factors of cooperation consisted of: collaboration, competency, coordination, dependency, trust, competitive advantage, capacity, and capability (Doll et al.,1987; Mohr et al.,1994; Liedtka,1996; and Sulistiyani,2014).

7. Dynamic capabilities dimension

This dimension emphasizes on the environment characteristic transformation and the ability of company in adapting, integrating, and reconfiguring the internal and external resources for fighting with the dynamic environment. Adopted from previous researches, this capability used for solving problem, constructing, integrating, reconfiguring, learning, coordinating, acquiring the knowledge, creating a knowledge, combining all knowledge, marketing, management altering, innovating, founding, and protecting the resources (Teece,2007; Pavlou et al.,2011; Wang et al.,2011; Zheng et al.,2011; Lin et al.,2012; Mauludin et al.,2013).

8. Fit and proper test dimension

The fit and proper test dimension is an assessment process of the integrity and ability for all management in accordance with the applicable provision. Inside of this test, a company can apply some component based on the previous literatures such as material test, vision test, response test, banking regulation test, the philosophy test of healthy banking, corporate governance test, and integrity and competency test (Barnard et al.,1986; Khalid et al.,2014; Pawana,2014).

RESEARCH METHODOLOGY

Our current research uses verification research method based on some theories and it will be developed into the hypotheses or temporary answer of our main research questions. That questions are: 1) what factors are contribute in creating the quality of good corporate governance (GCG) for Indonesia banking sector and 2) what type of good corporate governance (GCG) is the most ideal for describing the determinant factors of good corporate governance (GCG) practice in Indonesia public banks. Therefore, we applied some steps to make a conclusion at the end of our research as follows:

1. Determining the operational variables

This first step consists of 9 variables: seven variables are latent exogen (resources, leadership, unique capability, organization culture, business environment, business partnership, dynamic capability), one is moderate variable (fit and proper test) and one variable as latent endogen (the quality of GCGpractice)

2. Determining the source and method of data

The source of data using in current research derived from primary and secondary data. Our primary data is taking from the questionnaire distribution through email, face to face, and online form while the secondary data is taken from public banks in Indonesia and The Indonesia Finance Authority Service (OJK) performance indicator reports. Moreover, the research object is all public bank operating in Indonesia.

3. Data Collecting technique

The techniques using in our current research are questionnaires distribution and interviews. Then, the population is all public banks operating in Indonesia and the respondents are every bank coordinator (115 people in total).

4. Designing of analysis and hypotheses test

In this current research, we applied Likert scale in valuing the questionnaires. Every questionnaire was given 6 choices of answers according to the voter's judgment i.e.: 1 -> strongly disagree, 2 -> disagree, 3 -> not agree, 4 -> quite agree, 5 -> agree, 6-> strongly agree. Besides that, all question faced all indicators based on 8 dimensionsof good corporate governance (GCG). Therefore, the indicators average calculation result of each dimensions will be classified into 3 scales i.e.: not good (1-2.67), good enough (2.67 – 4.33), and good (4.33 – 6.00). Then, the design of analysis and hypotheses can be explained as follows:

1. Data analysis method

The method using in data analysis is descriptive analysis in order to get the image of voters' characteristic.

2. Structural Equation Model (SEM) analysis

According to hypothesis formulation, we measure the inferential statistic data analysis through using Lisrel 8.80 Software. Moreover, we made a complete model through some steps such as: theoretical model development, path diagram development, the conversion of path diagram into the mathematical equation, the selection of input matrix and model estimation, the identification of structural method, the model compatibility testing, and the evaluation of goodness-of-fit criteria.

3. Structural Method

This method will explain the relationship between variables and dimensions of good corporate governance.

4. The validity test of questionnaire

This test will be used as a basis to avoid the data which cannot be proceed because of misunderstanding questions, central tendency answers, and no answers at all questions.

5. Reliability test

This test will be used to measure the consistency and the accuracy of questions inside of the questionnaire.

6. Moderation effect test

This test will classify the moderation variables into 4 types i.e.: pure moderation, pseudo moderation, potential moderation, and predictor moderation.

7. Hypothesis test

This test will be applied in answering all hypotheses related with the 8 dimension of good corporate governance (GCG). Then, these hypotheses will use to design the problem solving.

Based on the result of research and aim of research referring to the problem identification, there are some stages using in designing the problem solving as follows:

- a. The formulation of research purpose
- b. The strategy mapping
- c. The operationalization strategy
- d. The action plan
- e. The evaluation and controlling plan

RESULT AND DISCUSSION

The Analysis of Current Good Corporate Governance (GCG) Implementation in Indonesia Public Banks

Based on the survey process through questionnaire distributing, the overall implementation of good corporate governance (GCG) in Indonesia public banks at all book bank types has been running well. This valuation has been derived from the measurement of each operational variable (table 4.1) which earn the total average index in determining the criteria score.

Table 4.1. The Average Value of Good Corporate Governance (GCG) Operational Variables

| Research Indicators or Variables | The Book Bank Types | | | | Index Total | Criteria |
|----------------------------------|---------------------|--------|--------|--------|-------------|-------------|
| | Book 1 | Book 2 | Book 3 | Book 4 | | |
| Latent Endogen Variable: | | | | | | |
| Good Corporate Governance | 4.47 | 4.60 | 4.66 | 4.90 | 4.66 | Good |
| Latent Hexogen Variables: | | | | | | |
| Company Resources | 4.22 | 4.42 | 4.57 | 4.85 | 4.51 | Good |
| Leadership System | 4.40 | 4.53 | 4.66 | 4.97 | 4.64 | Good |
| Unique Capability | 3.87 | 4.08 | 4.32 | 4.80 | 4.27 | Good Enough |
| Organizational Culture | 4.25 | 4.47 | 4.59 | 4.95 | 4.57 | Good |
| Business Environment | 4.29 | 4.54 | 4.60 | 4.72 | 4.54 | Good |

| | | | | | | |
|----------------------|------|------|------|------|------|-------------|
| Business Partnership | 4.15 | 4.33 | 4.46 | 4.87 | 4.45 | Good |
| Dynamic Capability | 3.91 | 4.18 | 4.37 | 4.70 | 4.29 | Good Enough |
| Moderate Variable: | | | | | | |
| Fit and Proper test | 4.13 | 4.37 | 4.52 | 4.64 | 4.41 | Good |

Source: Proceed Data, 2019

Moreover, the quality assessment of good corporate governance (GCG) practice in all Indonesia public banks also considered good based on the measurement of average index in compliance with the 5 principles that has been set by Finance Service Authority (OJK) Letter in March 17th, 2017 (Table 4.2).

Table 4.2. The Average Value of Good Corporate Governance (GCG)Based on OJKPrinciples

| Principles | The Book Bank Types | | | | Total | Criteria |
|----------------|---------------------|--------|--------|--------|-------|----------|
| | Book 1 | Book 2 | Book 3 | Book 4 | | |
| Transparency | 4.57 | 4.68 | 4.80 | 5.00 | 4.76 | Good |
| Accountability | 4.27 | 4.47 | 4.63 | 4.95 | 4.58 | Good |
| Responsible | 4.57 | 4.70 | 4.69 | 4.90 | 4.71 | Good |
| Independency | 4.45 | 4.61 | 4.58 | 4.73 | 4.59 | Good |
| Fairness | 4.49 | 4.56 | 4.62 | 4.93 | 4.65 | Good |

Source: Proceed Data, 2019

The Analysis of Current Dimensions of Good Corporate Governance (GCG)In Indonesia Public Banks

Company Resources Dimension

The company resources consist of 2 types i.e.: organizational resources and human resources (Jabbouri et al.,2014). The average value of each type of resources can be seen in table 4.3. Then, the overall average value of company resources in all Indonesia public banks has been good implemented except book bank 1 which needs some improvements in both of resources.

Table 4.3. The Average Value of Company Resources Dimension

| The Book Bank Types | Type of Resource | | Total Average Value | Criteria |
|---------------------|------------------|--------------------------|---------------------|-------------|
| | Human Resources | Organizational Resources | | |
| Book 1 | 4.21 | 4.23 | 4.22 | Good enough |
| Book 2 | 4.38 | 4.46 | 4.42 | Good |
| Book 3 | 4.58 | 4.56 | 4.52 | Good |
| Book 4 | 4.83 | 4.87 | 4.85 | Good |
| Total Average Value | | | 4.51 | Good |

Source: Proceed Data, 2019

Leadership System Dimension

Nave (2006) stated that the successful or the failure level of a company is determined by the leadership style. He measures this level through 4 tools i.e.: 1) vision, 2) communication, 3) inspiration, and 4) intellectual stimulation. The average values of each measurement tools can be seen in table 4.4 and the overall value showed that the leadership system has been well applied in all

types of book bank in Indonesia public bank except book bank 1 which needs some improvement in inspiration and intellectual stimulation factor.

Table 4.4. The Average Value of Leadership System Dimension

| The Book Bank Types | Type of Measurement Tools | | | | Total of Average Value |
|---------------------|---------------------------|---------------|-------------|--------------------------|------------------------|
| | Vision | Communication | Inspiration | Intellectual Stimulation | |
| Book 1 | 4.51 | 4.43 | 4.33 | 4.33 | 4.40 |
| Book 2 | 4.68 | 4.60 | 4.43 | 4.41 | 4.53 |
| Book 3 | 4.78 | 4.69 | 4.57 | 4.59 | 4.65 |
| Book 4 | 5.00 | 5.00 | 4.87 | 5.00 | 4.96 |
| Total Average Value | | | | | 4.64 |

Source: Proceed Data, 2019

Unique Capability Dimension

The unique capability is defined as a specific resource that must be had by all companies and be implanted in order to increase the effectiveness of productivity of other resources inside of the company (Makadok,2001).Simonceska (2010) also explained that there were 2types of measurement of this dimension i.e.: characteristic and innovation. Table 4.4 will describe about the average values of each measurement and the overall average values indicated that this dimension is still not well implemented in Indonesia public banks and needs some improvements in book bank 1-3.

Table 4.5. The Average Value of Unique Capability Dimension

| The Book Bank Types | Type of Measurement | | Total of Average Value | Criteria |
|---------------------|---------------------|------------|------------------------|-------------|
| | Characteristic | Innovation | | |
| Book 1 | 3.87 | 3.86 | 3.87 | Good enough |
| Book 2 | 4.15 | 4.02 | 4.09 | Good enough |
| Book 3 | 4.36 | 4.28 | 4.32 | Good enough |
| Book 4 | 4.75 | 4.85 | 4.80 | Good |
| Total Average Value | | | 4.27 | Good enough |

Source: Proceed Data, 2019

Organizational Culture Dimension

There was a strong relationship between organizational culture and the formulation of determinant factors in determining the quality of good corporate governance (GCG) practice and in resulting the sustainable competitive performance (Barney, 1991). He also described this dimension consists of 4 factors i.e.: 1) norms, 2) organizational condition, 3) primary value, and 4) regulation. The average value of each factor can be seen in table 4.6. Besides that, the total of this average value indicated that this dimension has been well applied in Indonesia public banks except book bank 1 needing an improvement.

Table 4.6. The Average Value of Organizational Culture Dimension

| The Book | Types of Factors | | | | Total of Average | Criteria |
|----------|------------------|----------------|---------|------------|------------------|----------|
| | Norms | Organizational | Primary | Regulation | | |

| Bank Types | | Situation | Value | | Value | |
|---------------------|------|-----------|-------|------|-------|-------------|
| Book 1 | 4.33 | 4.29 | 3.94 | 4.45 | 4.25 | Good enough |
| Book 2 | 4.53 | 4.48 | 4.26 | 4.60 | 4.47 | Good |
| Book 3 | 4.68 | 4.63 | 4.33 | 4.71 | 4.59 | Good |
| Book 4 | 5.00 | 5.00 | 4.87 | 4.95 | 4.96 | Good |
| Total Average Value | | | | | 4.58 | Good |

Source: Proceed Data, 2019

Business Environment Dimension

Jim (2012) illustrated that this dimension able to answer some questions such as how to know the trend development, how the trend will effect on business, and how the planning for facing the current trends. He measured this dimension from 2 parties i.e.: internal and external environment. The average value of each party can be seen in table 4.7 and the result showed that this dimension has been well implemented in Indonesia public banks except book bank 1.

Table 4.7. The Average Value of Business Environment Dimension

| The Book Bank Types | Type of Environment | | Total of Average Value | Criteria |
|------------------------|---------------------|----------|------------------------|-------------|
| | Internal | External | | |
| Book 1 | 4.35 | 4.23 | 4.29 | Good enough |
| Book 2 | 4.60 | 4.48 | 4.54 | Good |
| Book 3 | 4.72 | 4.47 | 4.60 | Good |
| Book 4 | 4.90 | 4.55 | 4.73 | Good |
| Total of Average Value | | | 4.54 | Good |

Source: Proceed Data, 2019

Business Partnership Dimension

Vonderembse et al. (1999) supported the role of business partnership in stimulating the forming of good corporate governance (GCG) in a company. They also stated that there were 2 components to asses this dimension i.e.: collaboration and cross-competence. The sum of average value concluded that the two components are good implemented except for book bank 1 and 2.

Table 4.8. The Average Value of Business Partnership Dimension

| The Book Bank Types | Type of components | | Total of Average Value | Criteria |
|------------------------|--------------------|------------------|------------------------|-------------|
| | Collaboration | Cross-Competence | | |
| Book 1 | 3.96 | 4.35 | 4.15 | Good enough |
| Book 2 | 4.13 | 4.52 | 4.33 | Good enough |
| Book 3 | 4.28 | 4.64 | 4.46 | Good |
| Book 4 | 4.87 | 4.87 | 4.87 | Good |
| Total of Average Value | | | 4.46 | Good |

Source: Proceed Data, 2019

Dynamic Capabilities Dimension

Pisano et al. (2003) studied that the dynamic capabilities have a strong relationship with the practice of good corporate governance (GCG) in facing the business condition with the technology change, the customer change, and the tight competition. They also assess this dimension from two types i.e.: sensitivity capability and management changing capability. The average value of each type can be seen in table 4.9 and the overall value of this dimension showed that all types has not been well implemented in Indonesia public banks especially for book bank 1 and 2.

Table 4.9. The Average Value of Dynamic Capabilities Dimension

| The Book Bank Types | Types of assessment | | Total of Average Value | Criteria |
|------------------------|---------------------|---------------------|------------------------|-------------|
| | Sensitivity | Management Changing | | |
| Book 1 | 3.76 | 4.06 | 3.91 | Good enough |
| Book 2 | 4.03 | 4.32 | 4.18 | Good enough |
| Book 3 | 4.21 | 4.52 | 4.37 | Good |
| Book 4 | 4.60 | 4.80 | 4.70 | Good |
| Total of Average Value | | | 4.29 | Good enough |

Source: Proceed Data, 2019

Fit and Proper Test Dimension

The primary quality of good corporate governance (GCG) practice is determined by the key criteria inside of the fit and proper test process both in developed and developing countries (Khalid et al., 2004). They applied two keys in looking for good leaders i.e.: integrity and competency. Moreover, the sum of average value indicated that this dimension is still not well implemented in all book bank types especially type 1 and need some improvements.

Table 4.10. The Average Value of Fit and Proper Test Dimension

| The Book Bank Types | Keys for looking good leader | | Total of Average Value | Criteria |
|------------------------|------------------------------|------------|------------------------|-------------|
| | Integrity | Competency | | |
| Book 1 | 4.25 | 4.01 | 4.13 | Good enough |
| Book 2 | 4.46 | 4.28 | 4.37 | Good |
| Book 3 | 4.60 | 4.45 | 4.53 | Good |
| Book 4 | 4.64 | 4.63 | 4.64 | Good |
| Total of Average Value | | | 4.41 | Good |

Source: Proceed Data, 2019

The Analysis of Measurement Model

The analysis process of measurement model is divided into 2 parts, there are: 1) validity and reliability test and 2) the matching test of all measurement model. The details of the tests can be seen in table 4.11 and table 4.12. Then, the result of measurement model can be seen in figure 4.1 and figure 4.2.

Table 4.11. The Matching Test of All Measurement Model

| Goodness of Fit (GOF) | Goodness of Fit (GOF) Measurement | Value | Remarks |
|--------------------------|-----------------------------------|--------|----------|
| Absolute Fit Measurement | | | |
| Chi-square | The smaller the better | 108.26 | Fit |
| RMR | $\leq 0,05$ | 0.049 | Good Fit |

| | | | |
|------------------------------|--|--------|----------|
| Standardized | | | |
| RMSEA | $\leq 0,08$ | 0.000 | Good Fit |
| ECVI | Model of ECVI Value close to ECVI Saturated | 9.26 | Good Fit |
| Incremental Fit Measurement | | | |
| NNFI | Marginal fit $0,8 \geq GOF \leq 0,9$ | 1 | Good Fit |
| NFI | | 1 | Good Fit |
| GFI | | 1 | Good Fit |
| AGFI | | 0.99 | Good Fit |
| RFI | | 0.99 | Good Fit |
| IFI | | 1.00 | Good Fit |
| CFI | | 1.00 | Good Fit |
| Parsimonious Fit Measurement | | | |
| AIC Model | Value of AIC Model close to Value of AIC saturated | 880.26 | Good Fit |
| AIC Saturated | | 1056 | |
| AIC Independence | | 29467 | |
| CAIC Model | Value of CAIC model close to CAIC saturated | 2325 | Good Fit |
| CAIC Saturated | | 3033 | |
| CAIC Independence | | 29587 | |
| Other GOFI Measurement | | | |
| Critical "N" | ≥ 200 | 294.87 | Good Fit |

Source:
Proceed Data
byLisrel
8.70, 2019

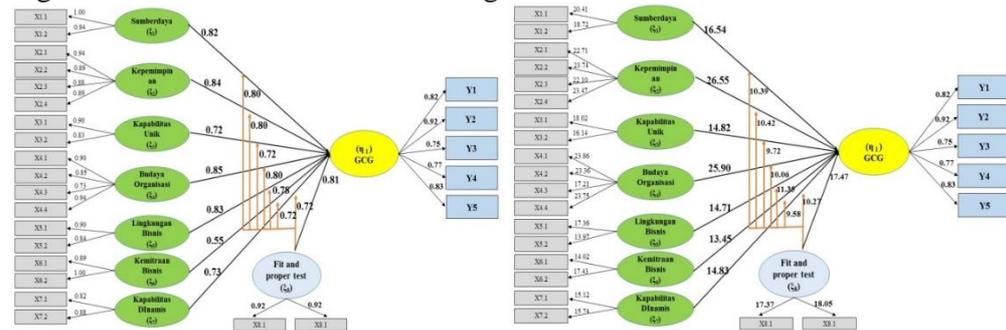
Table 4.12.
The Validity
and
Reliability
Test

| Indicators | Remarks | Standardized Loading Factor | ei | T calculation | CR | VE |
|------------|--------------------------|-----------------------------|------|---------------|--------|---------|
| X1.1 | Human resource | 1,00 | 0,00 | 20,41 | 0,9871 | 0,79304 |
| X1.2 | Organizational Resource | 0,94 | 0,11 | 18,72 | | |
| X2.1 | Vision and Mission | 0,94 | 0,12 | 22,71 | | |
| X2.2 | Communication | 0,89 | 0,20 | 23,74 | | |
| X2.3 | Inspiration | 0,88 | 0,22 | 22,10 | | |
| X2.4 | Intellectual Stimulation | 0,89 | 0,20 | 23,47 | | |
| X3.1 | Characteristic | 0,90 | 0,19 | 18,02 | | |
| X3.2 | Innovation | 0,83 | 0,31 | 16,14 | | |
| X4.1 | Norms | 0,90 | 0,20 | 23,86 | | |
| X4.2 | Organizational Situation | 0,85 | 0,28 | 23,36 | | |
| X4.3 | Primary Value | 0,73 | 0,47 | 17,21 | | |
| X4.4 | Regulation | 0,94 | 0,11 | 23,75 | | |
| X5.1 | Internal | 0,90 | 0,19 | 17,36 | | |
| X5.2 | External | 0,84 | 0,29 | 13,97 | | |
| X6.1 | Collaboration | 0,89 | 0,21 | 14,02 | | |
| X6.2 | Cross-Competence | 1,00 | 0,00 | 17,43 | | |
| X7.1 | Sensitivity Capability | 0,82 | 0,32 | 15,12 | | |

| Indicators | Remarks | Standardized Loading Factor | ei | T calculation | CR | VE |
|------------|--------------------------------|-----------------------------|------|---------------|----|----|
| X7.2 | Management Changing Capability | 0,88 | 0,22 | 15,74 | | |
| X8.1 | Integrity | 0,84 | 0,29 | 17,37 | | |
| X8.2 | Competency | 0,89 | 0,20 | 18,05 | | |

Source: Proceed Data byLisrel 8.70, 2019

Figure 4.1. The Standardized Loading Factor and T Calculation

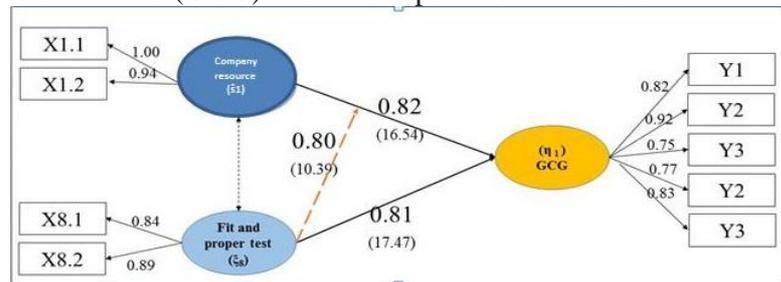


Source: Proceed Data byLisrel 8.70, 2019

The Effect Test of Company Resources, Good Corporate Governance (GCG) and Fit Proper Test Dimension

The first hypothesis is testing the direct effect of company resources with good corporate governance (GCG). Then, this result will be tested with the moderation effect of fit and proper test. Figure 4.2 will describe about the hypothesis and showed there are a significant and positive impact between company resources and good corporate governance (GCG). Besides that, the t calculation test also showed that fit and proper test is able to increase the effect of company resources and good corporate governance (GCG).

Figure 4.2. The Relationship between Company Resources, Good Corporate Governance (GCG) and Fit Proper Test Dimension



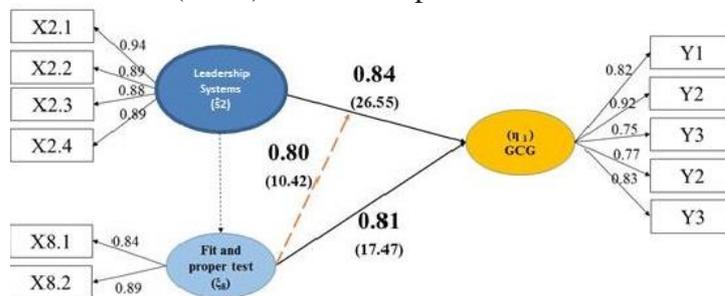
Source: Proceed Data byLisrel 8.70, 2019

The Effect Test of Leadership System, Good Corporate Governance (GCG) and Fit Proper Test Dimension

The second hypothesis will test the direct effect of leadership system with good corporate governance (GCG). Then, this result will be tested with the moderation effect of fit and proper test. Figure 4.3 will describe about the hypothesis and showed there are a significant and positive impact between leadership system and good corporate governance (GCG). Besides that, the t

calculation also identified that fit and proper test able to raise the effect of leadership system and good corporate governance (GCG).

Figure 4.3. The Relationship between Leadership System, Good Corporate Governance (GCG) and Fit Proper Test Dimension

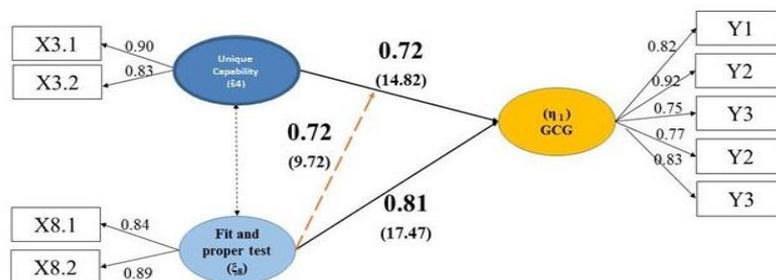


Source: Proceed Data byLisrel 8.70, 2019

The Effect Test of Unique Capability, Good Corporate Governance (GCG) and Fit Proper Test Dimension

The third hypothesis will test the direct effect of unique capability with good corporate governance (GCG). Then, this result will be tested with the moderation effect of fit and proper test. Figure 4.4 will describe about the hypothesis and showed there are a significant and positive impact between unique capability and good corporate governance (GCG). Besides that, the t calculation showed that fit and proper test able to increase the effect of unique capability and good corporate governance (GCG).

Figure 4.4. The Relationship between Unique Capability, Good Corporate Governance (GCG) and Fit Proper Test Dimension

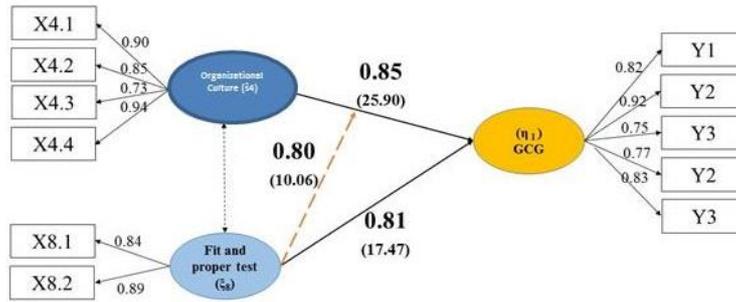


Source: Proceed Data by Lisrel 8.70, 2019

The Effect Test of Organizational Culture, Good Corporate Governance (GCG) and Fit Proper Test Dimension

The fourth hypothesis will test the direct effect of organizational culture with good corporate governance (GCG). Then, this result will be tested with the moderation effect of fit and proper test. Figure 4.5 will describe about the hypothesis and showed there are a significant and positive impact between organizational culture and good corporate governance (GCG). Besides that, the t calculation also showed that fit and proper test able to raise the effect of organizational culture and good corporate governance (GCG).

Figure 4.5. The Relationship between Organizational Culture, Good Corporate Governance (GCG) and Fit Proper Test Dimension

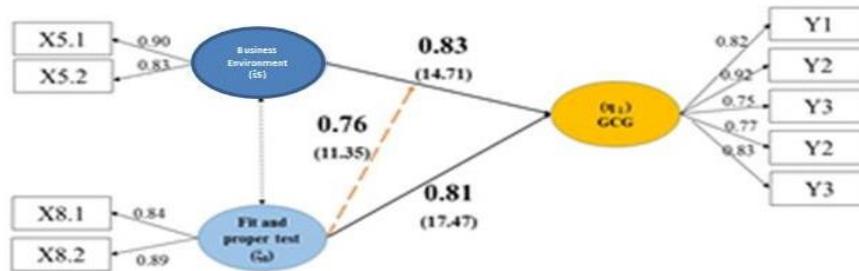


Source: Proceed Data by Lisrel 8.70, 2019

The Effect Test of Business Environment, Good Corporate Governance (GCG) and Fit Proper Test Dimension

The fifth hypothesis will test the direct effect of business environment with good corporate governance (GCG). Then, this result will be tested with the moderation effect of fit and proper test. Figure 4.6 will describe about the hypothesis and showed there are a significant and positive impact between business environment and good corporate governance (GCG). Besides that, the t calculation also showed that fit and proper test able to increase the effect of business environment and good corporate governance (GCG).

Figure 4.6. The Relationship between Business Environment, Good Corporate Governance (GCG) and Fit Proper Test Dimension

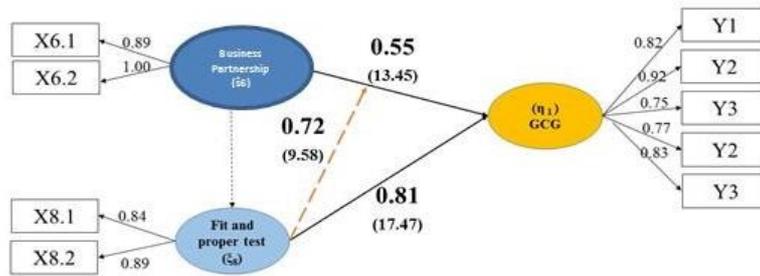


Source: Proceed Data by Lisrel 8.70, 2019

The Effect Test of Business Partnership, Good Corporate Governance (GCG) and Fit Proper Test Dimension

The sixth hypothesis will test the direct effect of business partnership with good corporate governance (GCG). Then, this result will be tested with the moderation effect of fit and proper test. Figure 4.7 will describe about the hypothesis and showed there are a significant and positive impact between organizational culture and good corporate governance (GCG). Besides that, the t calculation showed that fit and proper test also able to raise the effect of business partnership and good corporate governance (GCG).

Figure 4.7. The Relationship between Business Partnership, Good Corporate Governance (GCG) and Fit Proper Test Dimension

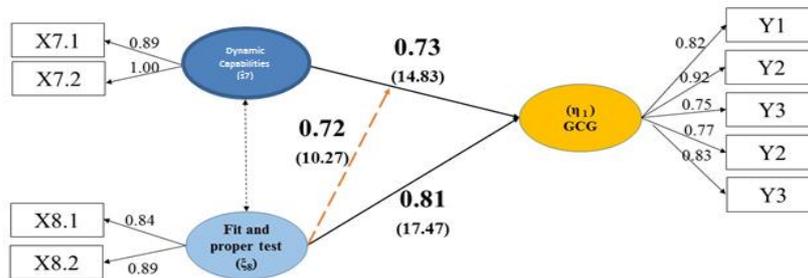


Source: Proceed Data by Lisrel 8.70, 2019

The Effect Test of Dynamic Capabilities, Good Corporate Governance (GCG) and Fit Proper Test Dimension

The seventh hypothesis will test the direct effect of dynamic capabilities with good corporate governance (GCG). Then, this result will be tested with the moderation effect of fit and proper test. Figure 4.8 will describe about the hypothesis and showed there are a significant and positive impact between dynamic capabilities and good corporate governance (GCG). Besides that, the t calculation also showed that fit and proper test able to raise the effect of dynamic capabilities and good corporate governance (GCG).

Figure 4.8. The Relationship between Dynamic Capabilities, Good Corporate Governance (GCG) and Fit Proper Test Dimension

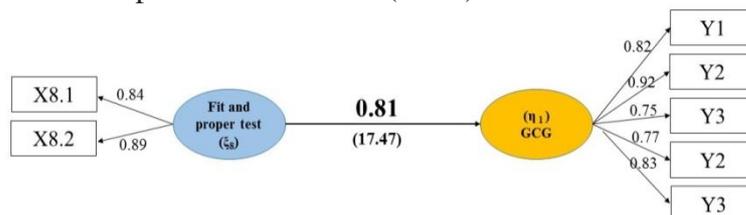


Source: Proceed Data by Lisrel 8.70, 2019

The Effect Test of Fit and Proper Test Dimension and Good Corporate Governance (GCG)

The eighth hypothesis will test the direct effect between fit and proper test and good corporate governance (GCG). Figure 4.9 described that fit and proper test has a significant and positive impact for good corporate governance (GCG).

Figure 4.9. The Relationship between Fit and Proper Test Dimension and Good Corporate Governance (GCG)



Source: Proceed Data by Lisrel 8.70, 2019

CONCLUSION AND RECOMMENDATION

Conclusion

According to our current research, there are some conclusions can be taken from the analysis process. It can be detailed explain as follows:

1. Company resources dimension is very influential on the practice of good corporate governance (GCG) in Indonesia public banks. It is also caused by the supporting of human resource and organizational resource which have an important role for the sustainability of good corporate governance (GCG) principle application.
2. The quality of good corporate governance (GCG) practice in Indonesia public banks is very determined by the organizational culture dimension. Moreover, the behavior of this dimension is extremely important for anticipate the individualism behavior of bank leaders.
3. The leadership system dimension is very crucial in assessing the quality of good corporate governance (GCG) practice in Indonesia public banks. This dimension is also considered as a major factor in making the rules of good corporate governance (GCG) and increased the trust of bank leaders.
4. The determination of good corporate governance (GCG) quality in Indonesia public banks can be analyzed from unique capability dimension. This dimension able to show the structural relationship between corporate governance, intellectual capital efficiency, and financial performance.
5. Business environment dimension has a great impact for assessing the quality of good corporate governance (GCG) practice in Indonesia public banks. The ability of bank leaders can change the role and function in corporate managing to answer the environment demands and challenges.
6. The assessment of good or bad quality of good corporate governance (GCG) quality practice in Indonesia public banks can be seen from business partnership dimension. This dimension will help to increase the professionalism and competency of bank leaders.
7. Dynamic capability dimension has a strong effect for the implementation of good corporate governance (GCG) in Indonesia public banks.
8. Fit and proper test dimension can be applied as a determinant factor in deciding the quality of good corporate governance (GCG) practice in Indonesia public banks. In addition, this dimension also can be recognized as a primary part of critical success in implementing the 5 (five) principles of good corporate governance (GCG) based on Indonesia Financial Service Authority (OJK).

Recommendations

According to the previous conclusion, there are some recommendations which can be given through this current research as follows:

1. The determinant factors and criteria in selecting the Indonesia public bank leaders must be done through process of fit and proper test. Furthermore,

the measurement tools applying in this process must fulfill 7 factors which can be seen in table 5.1.

Table 5.1. The Measurement Factors of Fit and Proper Test of Bank Leaders

| No. | Fit and Proper Test Measurement Size |
|-----|---|
| 1 | The morality |
| 2 | The commitment of obedient with Indonesia public bank regulation |
| 3 | The education level |
| 4 | The knowledge level of Indonesia public banks managing |
| 5 | The skill level of Indonesia public banks managing |
| 6 | The previous working experience in public banks |
| 7 | The ability level of making banking financial report in accordance with applicable law and regulation |

Source: Proceed Data, 2019

- The bank leaders must learn more about the effect of good corporate governance (GCG) implementation in increasing the working performance of in Indonesia public banks. The level of understanding which owned by bank leaders can only be seen from the fit and proper test result. So that, this test must be applied as a determinant variable in reaching the good quality of corporate governance in Indonesia public banks according to the good corporate governance (GCG) measurement factors (table 5.2).

Table 5.2. The Measurement Factors of Good Corporate Governance (GCG) in Indonesia Public Banks

| No. | Good Corporate Governance (GCG) Measurement Factors |
|-----|---|
| 1 | The information completeness for stakeholders |
| 2 | The right information for stakeholders |
| 3 | The accuracy information for stakeholders |
| 4 | The easily access in communication term for stakeholders |
| 5 | The clarity of staff responsibility |
| 6 | The level of competency in each position |
| 7 | Having check and balance system in internal bank managing system |
| 8 | Having working measurement tools of all management bank positions |
| 9 | The ensuring of caution principle |
| 10 | The guarantee of implementing the applicable laws and rules |
| 11 | The ensuring of good behavior for every individuals |
| 12 | The avoidance of unnatural domination |
| 13 | The objectivity level in taking decision |
| 14 | The equality principle in fulfill the shareholder needs |
| 15 | The fairness principle giving the opinions |
| 16 | The openness principle in information access |

Source: Proceed Survey Data, 2019

- The fit and proper test process must be able to see the good behavior of bank leader candidates in helping to press the egoism of bank management. This behavior can be assessed from the ideal leader characteristics (Table 5.3).

Table 5.3. The Characteristic of Ideal Leader

| No. | Characteristics of Ideal Leader |
|-----|---------------------------------|
|-----|---------------------------------|

| | |
|---|---|
| 1 | Having the smart ability in planning and setting the target |
| 2 | Having the initiative in reaching the company vision |
| 3 | Having the highly responsibility in their tasks |
| 4 | Holding the transparency and accuracy principles in every tasks |
| 5 | Being a patient communicator in mobilizing all ideas from his/her members |

Source: Finansialku.com, 2018

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