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Contributing Factors of Good Corporate Governance and Employee Performance to Bank Performance

Nizar Alam Hamdani*
Universitas Garut, Indonesia

Galih Abdul Fatah Maulani
Universitas Garut, Indonesia

Agus Supriyatna
Universitas Pendidikan, Indonesia

Abstract

This study aims to figure out the influence of good corporate governance and employee performance on bank performance. The method used in this research is explanatory. The samples were 73 people including directors, Vice president division, chiefs of BJB branches based in Indonesia. To analyze the data, a PLS method was carried out to find out the contributing factors of good corporate governance and employee performance to bank performance. The results show that good corporate governance has a greater influence on the performance of the bank directly, rather than on the performance of the employee's. Any findings on the of this research, which is the effectiveness of GCG, must be based on the road map that has been prepared by a top-down approach.

Keywords: Good corporate governance; Bank performance; Employee work effectiveness.

1. Introduction

The principles of good corporate governance (GCG) must be implemented in order to professionally manage a profit oriented BUMD (regionally owned enterprise) that is demanded to serve the public interest. The implementation of GCG can be encouraged through both ethics and regulation (Nainawat and Meena, 2013). The ethical driven encouragement comes from the awareness of the business people to do business practices that prioritize the corporate's survival, stakeholders' interests and avoid short-lived profit oriented practices. At the same time, the regulatory driven encouragement entails that the enterprise should comply with the prevailing laws and regulations. Each of the two approaches has its own strengths and weaknesses, and both should be inter-complementary to each other in order to create a healthy business environment. Rules embodied in the principles of good governance reflect the corporate accountability (Lane, 2010).

Mohammed (2012) explains that the transparent and accountable corporate governance affects the performance of banks in Nigeria. Siallagan and Januarti (2014) study shows that almost all banks in Indonesia have implemented of the GCG, which in turn affects the performance of the banks in question. In order to continue to improve its performance through the implementation of the principles of GCG, BJB Bank signed a memorandum of understanding (MoU) with the West Java Finance and Development Supervisory Agency (BPKP). The implementation of GCG will increasingly boost the company's performance that has managed a core capital of more than IDR 6.34 trillion in 2015. The scope of cooperation between BJB Bank and BPKP includes audit assistance, evaluation, professional opinion giving, technical guidance assistance, managerial tool development and implementation assistance, and the internal control structure development. The acquisition of the Best Gratification Control Award from the Corruption Eradication Commission (KPK) Awards on Gratification Control of State- and Regionally-Owned Enterprises in 2015 proves the success of Bank BJB in implementing GCG. But that does not mean BJB Bank has implemented GCG perfectly.

2. Literature Review

Corporate governance deals with both formal and informal matters. These include organizational structure, authority, human resource management, accountability, and transparency in the company (Lashgari, 2004). Referring to this, Lashgari further states, "Relationship investing works well when long-term investors are equipped with knowledge and experience to act as a mentor to corporate decision makers. Activist investors, on the other hand, demand changes in corporate policies for the purpose of increasing shareholders' wealth, or ultimately seek removal of the incumbent management team." Meanwhile, Samaduzzaman *et al.* (2015) suggest that "Corporate governance is an internal system which includes policies, people and processes that serve the needs of shareholders and other stakeholders by controlling and directing the activities of management with good business savvy, objectivity and integrity."

*Corresponding Author

Citing from Chinn (2000), Thomas (2006) journal suggests that there are two main theories of GCG, namely stewardship theory and agency theory. The stewardship theory is built upon a philosophical assumption about human nature that man is intrinsically trustworthy, capable of acting with full responsibility, integrity and honesty.

Mangkunegara (2011) explains that the employees' achievement is measured both in quantity and quality of their works. Siagian (2004) defines "performance as an overall ability of a person to work in such a way as to achieve the optimal work goals and objectives predeterminedly set up with the ratio of sacrifice smaller than the achieved results." There are various theories of the indicators of the employee performance. One of them is from Fadel (2009). He puts forwards the following indicators to measure the performance of employees: (1) Understanding of the main tasks and functions: Subordinates must understand their main tasks and functions and perform them according to their responsibilities; (2) Innovation: A employee has a positive innovation, consult about it with the superordinate, and discuss it with the colleagues; (3) Work pace: In carrying out the tasks, the work pace must be paid attention to in accordance with the existing work methods; (4) Work accuracy: Not only fast, but employees also have to do the tasks very carefully and always do a re-checking; (5) Teamwork: The ability to work collaboratively in a team such as appreciating the opinion of others. Meanwhile, Stan, Mərəscu-Klein, Neagoe, and Stan *et al.* (2012) study suggests several elements to measure the performance of employees including: (1) personal turnover, (2) income / call completed successfully, (3) complaints of crew members, (4) award of innovation, (5) the average weekly work, (6)

3. Methodology

The method used in this research is explanatory. The samples were 73 people including directors, Vice president division, chiefs of BJB branches based in Indonesia. To analyze the data, a PLS method was carried out to find out the contributing factors of good corporate governance and employee performance to bank performance. There were three variables in this study, governance (X1), employee performance (X2), and bank performance (Y). The first included transparency (X11), accountability (X12), responsibility (X13), independency (X14), and fairness (X15). The second variable included personal turnover (X21), income (X22), complaint (X23), award innovation (X24), average weekly work (X25), and presence (X26). The last variable included capital (Y1), asset (Y2), earnings management (Y3), liquidity (Y4), and sensitivity to market risk (Y5).

4. Results

To analyze and figure out the prediction of the impact of GCG and employee performance on the bank performance, the data ware analyzed using Smart PLS. This analysis used a bootstrapping method so that the assumption of normality was not taken into account. The PLS-SEM modeling shows that responsibility (X13), personal turnover (X21), award innovation (X24), capital (Y1), liquidity (Y4) had the loading factor value below 0.5; therefore, X13, X21, X24, Y1, and Y4 must be removed from the model. What follows is the model:

Figure-2. The Result of PLS Algorithm without X13, X21, X24, Y1, Y4

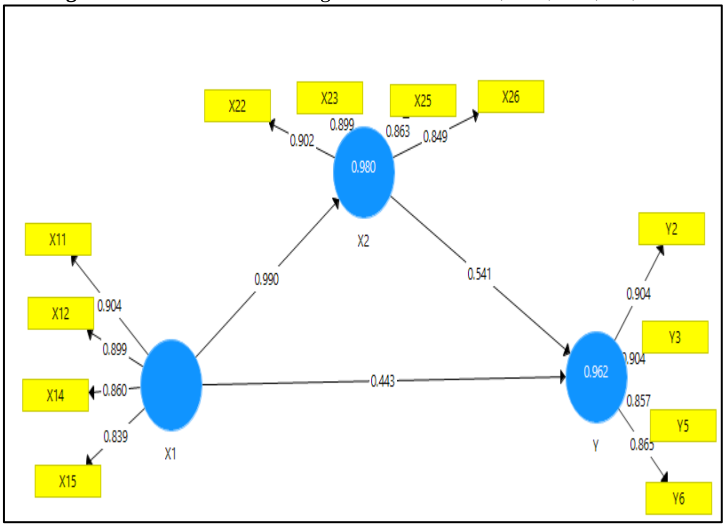

Figure 2 shows that the loading factor was above 0.5, meaning that the indicators used in this study were valid and met the convergent validity. Another method to figure out the discriminant validity is to look at the square root of average variance extracted (AVE). The recommended values were above 0.5; i.e., 0.633, 0.532, and 0.538. These values were above the AVE. The next step was the reliability testing to figure out the composite reliability of the indicator block that measured the construct. The composite reliability is deemed satisfactory if the result is above 0.7. The resulting composite reliability values on the output were 0.889, 0.849, and 0.853, all above 0.7. The Cronbach's Alphas of 0.835, 0.770, and 0.779 justified the reliability test results. As shown in Figure 2, the Cronbach's Alphas of all construct was above the recommended value of 0.6.

The next step was the first inner model test; i.e., is R-square. The results show that the R-square of employee performance (X2) was 0.980, and that of bank performance (Y) was 0.962. This indicated that X2 could explain the variance of Y by 98%. Based on the result of bootstrapping. The correlation between governance (X1) and bank performance (Y) was significant with the T-statistics of 1.860 (> 1.66). The original sample estimate was 0.443, indicating that the direction of the correlations between X1 and Y was positive. Thus, the research hypothesis stating that good corporate governance influences the bank performance is accepted.

The correlation between employee performance (X2) and bank performance (Y) was also significant with the T-statistics of 2.206 (> 1.66). The original sample estimate was 0.541, indicating that the direction of the correlations between X2 and Y was positive. Therefore, the research hypothesis stating that employee performance influences the bank performance is accepted. The correlation between good corporate governance (X1) and employee performance (X2) was significant with the T-statistics of 231.727 (> 1.66). The original sample estimate was 0.990, indicating that the direction of the correlations between X1 and X2 was positive. Thus, the research hypothesis stating that good corporate governance influences the employee performance is accepted.

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5. Conclusion

Based on the analysis of PLS Algorithm, the indicators whose impact on good corporate governance was significant included transparency (X11), accountability (X12), independency (X14), and fairness (X15). It goes to say that responsibility (X13) did not significantly influence good corporate governance. It was also revealed that the indicators that significantly influenced the employee performance were income (X22), complaint (X23), average weekly work (X25), and presence (X26). Hence, personal turnover (X21) and award innovation (X24) did not significantly influence the employee performance. And indicators that significantly influenced the bank performance included asset (Y2), earnings management (Y3), and sensitivity to market risk (Y5). Capital (Y1) and liquidity (Y4) did not significantly influence the bank performance. Since the correlation between good corporate governance, employee performance, and bank performance was significant, the research hypothesis stating that good corporate governance and employee performance influence the bank performance is accepted.

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