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ISSN : 2598-7976 E-ISSN : 2598-7968

ISSN : 2598-7976
E-ISSN : 2598-7968

ICEBM
The Sixth International Conference on Entrepreneurship and Business Management

Proceeding

The Role of Entrepreneurship and Business Management in Shaping Collaborative Economy

Hanoi, Vietnam, 16-17 November 2017

UNTAR
Universitas Tarumanagara

REPORT FROM THE COMMITTEE CHAIR OF ICEBM 2017

ICEBM, The International Conference on Entrepreneurship and Business Management, is an international conference in the field of entrepreneurship and business management, which could become a forum for both academics and practitioners to share ideas, research results and current entrepreneurial practice. This forum could also be useful for both academics and practitioners as media to build networks, which contribution is expected to develop entrepreneurship in the level of practice and academic.

Universitas Tarumanagara (UNTAR) as both initiator and organizer of ICEBM, at first was conducting the ICEBM in the year of 2011 in Jakarta, Indonesia. The conference was smoothly and successfully established by presenting speakers and presenters from various regions such as Asia specially ASEAN, Australia, America, Europe and Africa. Similarly, on the 2nd ICEBM in Sanur, Bali, Indonesia; the 3rd ICEBM in Penang, Malaysia, the 4th ICEBM in Bangkok, Thailand and the 5th ICEBM in Tainan, Taiwan. From the first ICEBM until the last one, there was around 100 presenters and participants attending the conference. This year, ICEBM is held in Hanoi, Vietnam in collaboration with Foreign Trade University (FTU), Universitas Pembangunan Jaya (UPJ), Universitas Multimedia Nusantara (UMN), Kun Shan University (KSU) and Sekolah Tinggi Ilmu Ekonomi Indonesia (STEI).

The main theme of the Sixth ICEBM is "The Role of Entrepreneurship and Business Management in Shaping Collaborative Economy". As we know companies based on a conventional business model have been facing a challenging competition from online application basis companies which apply a collaborative economic business model. Most of the conventional companies have controlled all the resources needed to propel their business activities in order to win the competition. In the other hand, the 'collaborative economy' business model is a model that applying an information technology which enables people to get what they need from other parties. Ownership and access to resources can be shared among people, business startups and corporations. The presence of a collaborative economy model provides a strong impact on conventional business model. For conventional companies, it is a threat to the company's income because customers could buy and share products between them. On the other side, the collaborative economy offers opportunities for companies to grow, compete and collaborate.

There were 139 abstract received from the participants and 114 full papers were reviewed by scientific committee. A total of 111 papers have been accepted. These papers were received from six different countries: Indonesia, Vietnam, Malaysia, Taiwan, Australia and Finland. Reviewing process in this year is similar to last year where we applied a double blind peer-review process. Scientific committee reviewed not just the abstracts received but also the full papers.

Finally, we wish to acknowledge the support of the collaborating institutions, sponsors, scientific committee, and organizing committee. We would also like to thank all the contributing authors for their valuable work in supporting The Sixth ICEBM. Have a great conference. Thank you very much.

Franky Slamet

ISSN: 2598-7976
e-ISSN: 2598-7968

THE INFLUENCE OF GOOD CORPORATE GOVERNANCE MECHANISM TO BANK'S PERFORMANCE IN INDONESIAN

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Abstract

The aim of this study is to examine empirically the influence of corporate governance mechanisms as employed by institutional ownership (INST), board of commissioner activity (MEET), board of director (DIR), proportion of independent commissioner board (INDEP) and audit committee (AUD) on bank's performance in Indonesia as case research from 2012 until 2016. Financial performance of these banks is measured by ROA. The research finds that audit committee (AUD has significantly influence on bank's performance, while the board of director size (DIR), the proportion of independent commissioner (INDEP), the ownership (INST) and the board of commissioner activity (MEET) shows insignificantly influence on bank's performance. Finally, the research reveales that good corporate governance has indirect relationship to the performance as well as put corporate governance in place to enable success management of a bank in Indonesia in order to improve good performance.

Keywords: *Institutional ownership, board of commissioner activity, board of director, proportion of independent commissioner board and audit committee, ROA.*

Introduction

Macey and O' Hara (2003) argued that banking financial institution has specific business nature that differentiate from non-financial institutions. The nature of the bank encouraged research topics about the issue of corporate governance in banking industry, especially after some of the Asian countries hit by the financial crisis (as cited in Sam'ani, 2008).

Arun and Turner (2003) finds that corporate governance practice in banking sector in developing country as well as in post-war financial crisis in Indonesia is became increasingly important, given some things. First, the bank occupied dominant position in economic system, especially as the engine of economic growth. Second, this country characterized by under developed capital markets, so bank hold role as main source of company's finance. Third, bank play role as principal agency in deposit mobilization. Fourth, the liberalization of banking system whether through privatization or deregulation of the economy caused bank managers have more leeway in running the operations of the bank (as cited in Sam'ani, 2008).

Some regulations related to the implementation of good corporate governance including Bank Indonesia regulation number 8/4/PBI/2006 regarding the implementation of Good Corporate Governance for commercial banks as well as circular letter No. 9/12/DPNP dated 30 May 2007 on the implementation of good corporate governance for commercial banks. Bank is obliged to implement the principles of good corporate governance in all its business activities on all levels or level of organization. Moreover, the decision of the Minister of State-owned enterprises number 117/2002 already required the same for state-owned enterprises about the existence of independent commissioners and the audit committee for all public companies. Good corporate governance had become very important since corporate governance practice needed achieve transparency and accountability requirements. Banks listed in capital markets was tended to have better corporate governance practices because they were closely monitored by outside investors who demand the banks should increase their transparency and disclosure as well as their performance (Lukas and Basuki, 2015).

According to Shungu and Ngirande (2014) world has seen that transparency, financial disclosure, independency, board size, board composition, board committees, board diversity in organization is became

ISSN: 2598-7976 e-ISSN: 2598-7968

the cornerstone of good governance practices. Therefore, some important indicator namely institutional ownership, board of commissioner activity, board of director, independent commissioner and audit committee are considered as main mechanism indicator of good corporate governance which has influence on bank's performance.

Material and Methods

Agency theory developed by Jensen, M.C., and W.H. Meckling (1976) established relationship as an agreement between two parties involved principals and agents. Principals as fund provider employs agents to (managers) to perform the company based on their behalf. Managers as "agents" had tendency to act with full awareness for its own interests, not as a party that act wisely and fair to principals. However according to Sundaramuthy (1996) as cited in Samson and Tarila (2014), agency problem arose because managers were generally had selfish interests and opportunist. Managers (agent) who are put in control of organization might not always consider best interest of owners and company and may pursue their self-activities and benefits by sacrificed the welfare of principals.

Agency theory also stated that conflict of interest between agent and principal can be reduced with the supervisory mechanism which can harmonize the various interests that exist within the company (Ibrahim, 2007). Supervisory mechanism referred to good corporate governance implemented within company. Good corporate governance is expected to provide confidence of management in managing the wealth of the owners (shareholders) by regulating and controlling the company is as to minimize conflicts of interest and minimizing the cost of the agency. Herawaty (2008), also stated that good corporate governance produced variety of mechanisms that aim to ensure management actions aligned with shareholder interests (mainly minority interest).

Tri Gunarsih (2003) as cited in Hardikasari (2011) stated the essence of corporate governance is increase in company's performance through supervision or monitoring of the management performance and accountability of management towards shareholders and other interests, based on the framework of rules and regulations. According to Surya and Yustiavandana in their book entitled *Penerapan Good Corporate Governance Mengesampingkan Hak Istimewa Demi Kelangsungan Usaha* (2006), stated that implementation of good corporate governance has a purpose for the company as follows:

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5. Protect directors and commissioners of lawsuits.

Performance achieved by company during period is commonly measured by financial statement as the basis for assessing financial ratio analysis. In this research, performance is measured by analyze financial reports using indicator cash flow return on assets (CFROA). Cornett et al. (2006) found that cash flow return on assets (CFROA) is indicator of financial performance that shows the ability of the company's assets in utilizing its assets to generate operating profit. CFROA more focused on measuring the performance of the company's current and CFROA not related to the share price.

Institutional Ownership

Institutional ownership is ownership of company shares which is owned by institutions such as insurance companies, banks, investment companies and other institutions (Tarjo, 2008). Crutchley and Hansen (1989) in Faisal (2005) found that high institutional ownership can be used to reduce the issue of agency problem. Moh'd et al. (1998) in Sam'ani (2008) argued that the distribution of shares between shareholders from outside which is called institutional investors and dispersion shareholders can reduce agency costs. Research by Wening (2009) stated greater ownership by financial institutions will increase power to optimize the value of company.

Board of commissioners as an organ of company in charge of and responsible collectively to supervise and provide advice to board of director and ensure that management implements good corporate governance principles. However, board of commissioners should not participate in taking operational decisions (NCG, 2012). Board of commissioners do not have authority in company's operations, but they have responsible to receive the information associated with the company which delivered by board of director (FKGI, 2001).

Board of Director

National Committee on Governance (NCG, 2006) stated that board of director held role as part of company in charge and responsible organ collegially in managing company's operations. Board size was measured by using number of board of director in company. According to Bank Indonesia Regulation number 8/4/ PBI/ 2006 number board of director in one company at least must meet three people. Shleifer

ISSN: 2598-7976 e-ISSN: 2598-7968

and Vishny (1997) found that the separation of roles between the shareholders as principal with the manager as his agent, then the manager will eventually have a significant controlling interest in terms of how they allocate funds investors (as cited in Samson and Tarila, 2014).

Proportion of Independent Commissioner

Independent commissioners are member of board of commissioner who are not affiliated with other board members, management, and controlling shareholder as well as free of other business relationships that may affect the ability to act independently or to act solely in the interest of company (NCG, 2006). Pharma and Jensen (1983) as cited in Wulandari (2005) stated that non-executive director (independent directors) can act as mediator in disputes among internal managers and directors oversees policy and provide advice to the board of director. Independent commissioner position is the best position to carry out the monitoring function for the creation of good corporate governance.

According to Herwidayatmo (2000) the existence of an audit committee in company is to improve the quality of financial reporting. In addition, the task of audit committee is to provide opinion from independent commissioners or report submitted by board of director to board of commissioner. So audit committee must conduct review of financial information that would be issued by the company such as financial statements, projections or other financial information. In performing its duties, the audit committee meets a minimum of four times a year.

Hyporesearch is temporary answer to the problem of research that the truth must be tested empirically. Based on the reviews and the framework above, it can be formulated hypotheses as follows:

H_1 : Good corporate governance as measured by the institutional ownership significantly influence to bank's performance as measured by CFROA.

H_2 : Good corporate governance as measured board of commissioner activity significantly influence to bank's performance as measured by CFROA.

H_3 : Good corporate governance as measured by board of director significantly influence to bank's performance as measured by CFROA.

H_4 : Good corporate governance as measured by proportion of independent commissioner significantly influence to bank's performance as measured by CFROA.

H_5 : Good corporate governance as measured by audit committee significantly influence to bank's performance as measured by CFROA.

H_6 : There is significant influence of good corporate governance as measured by institutional ownership, board of commissioner activity, board of director size, proportion of independent commissioner and the audit committee simultaneously significantly influence to bank's performance as measured by CFROA.

The Research Method

The data in this research was analyzed by using multiple linear regression models with panel data (combination of time series and cross section) using eviews 9.0. The sampling technique in this research is purposive sampling with the aim to obtain representative sample in accordance with the criteria specified.
After conducted the selection based on predefined criteria, only 20 banks are used as a sample.

Result and Discussions

In this section, the panel data regression analysis is used to investigate the impact of corporate governance on bank's financial performance using return on equity and return on asset. Table 1 presents the regression results for all the variables reviewed in this research:

Table 1
White Cross-Section Test Result of Pooled Least Square

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.177374	0.898534	0.197404	0.8439
INST	0.494009	0.499809	0.988395	0.3255
MEET	0.002432	0.007539	0.322595	0.7477
DIR	-0.284987	0.053488	-5.328008	0.0000
INDEP	-1.471610	1.109080	-1.326874	0.1878
AUD	0.613461	0.099246	6.181210	0.0000

ISSN: 2598-7976 e-ISSN: 2598-7968

From six variables have been tested prove that variable number of audit committee (AUD) has influence significantly to company performance (ROA) because the coefficient is positive and a probability value < 0.05. While institutional ownership (INST), board of commissioner activity (MEET), independent commisioner (INDEP), and Directors (DIR) do not have significant influence on performance of companies (ROA), because they have probability value > 0.05.

For the fisrt hyporesearch, the result of this research supports the result of the previous research of Rini and Ghozali (2012) which states that even though the higher value of institutional ownership does not guarantee the profitability of a company will be higher. It is because the degree of institutional does not have direct authority to influent and monitoring company so it will increase profitability indirectly. For the second hyporesearch, this research doesn't support research by Sam'ani (2008) which stated the board of commissioner activity has positive significant influence to company's performance. Board meeting frequency is used as formality and doesn't discuss about company's continuity and management's performance to increase profitability degree of the company. So, the higher frequency of board meetings doesn't guarantee any single increase within the company's performance. For the third research, this research supports research by Lukas and Basuki (2014) which stated positive significant relationship result may indicate that as long as the number of directors in the company is equitable, it will help the company to get better financial performance. For the fourth hyporesearch, this research supported research by Rini and Ghozali (2012) states that independent commissioner influence to ROA positively and significantly which means the higher independent commissioner, the higher company's profitability will be. Board of commissioner has important role in the implementation of good corporate governance, because board of commissioner as the core of corporate governance which is commissioned to ensure company's strategy implementation, supervise the management to run the company, and obligate the implementation of accountability. So, higher commissioner board's percentage, higher company's performance and profit will be. While the result of research conducted by Ridho and Aditya (2013) stated that independent commission has no significant influence to ROA. This might happen because independent commissioners which is involved in making decision process had less votes compared to other board commissioners so the quality of supervising function within the company is difficult to be improved and will interfere the increase of company's financial performance.

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Board of commissioners as an organ of company in charge of and responsible collectively to supervise and provide advice to board of director and ensure that management implements good corporate governance principles. However, board of commissioners should not participate in taking operational decisions (NCG, 2012). Board of commissioners do not have authority in company's operations, but they have responsible to receive the information associated with the company which delivered by board of director (FKGI, 2001).

Board of Director

National Committee on Governance (NCG, 2006) stated that board of director held role as part of company in charge and responsible organ collegially in managing company's operations. Board size was measured by using number of board of director in company. According to Bank Indonesia Regulation number 8/4/ PBI/ 2006 number board of director in one company at least must meet three people. Shleifer

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and Vishny (1997) found that the separation of roles between the shareholders as principal with the manager as his agent, then the manager will eventually have a significant controlling interest in terms of how they allocate funds investors (as cited in Samson and Tarila, 2014).

Proportion of Independent Commissioner

Independent commissioners are member of board of commissioner who are not affiliated with other board members, management, and controlling shareholder as well as free of other business relationships that may affect the ability to act independently or to act solely in the interest of company (NCG, 2006). Pharma and Jensen (1983) as cited in Wulandari (2005) stated that non-executive director (independent directors) can as mediator in disputes among internal managers and directors oversees policy and provide advice to the board of director. Independent commissioner position is the best position to carry out the monitoring function for the creation of good corporate governance.

According to Herwidayatmo (2000) the existence of an audit committee in company is to improve the quality of financial reporting. In addition, the task of audit committee is to provide opinion from independent commissioners or report submitted by board of director to board of commissioner. So audit committee must conduct review of financial information that would be issued by the company such as financial statements, projections or other financial information. In performing its duties, the audit committee meets a minimum of four times a year.

Hyporesearch is temporary answer to the problem of research that the truth must be tested empirically. Based on the reviews and the framework above, it can be formulated hypotheses as follows:

H_1 : Good corporate governance as measured by the institutional ownership significantly influence to bank's performance as measured by CFROA.

H_2 : Good corporate governance as measured board of commissioner activity significantly influence to bank's performance as measured by CFROA.

H_3 : Good corporate governance as measured by board of director significantly influence to bank's performance as measured by CFROA.

H_4 : Good corporate governance as measured by proportion of independent commissioner significantly influence to bank's performance as measured by CFROA.

H_5 : Good corporate governance as measured by audit committee significantly influence to bank's performance as measured by CFROA.

H_6 : There is significant influence of good corporate governance as measured by institutional ownership, board of commissioner activity, board of director size, proportion of independent commissioner and the audit committee simultaneously significantly influence to bank's performance as measured by CFROA.

The Research Method

The data in this research was analyzed by using multiple linear regression models with panel data (combination of time series and cross section) using eviews 9.0. The sampling technique in this research is purposive sampling with the aim to obtain representative sample in accordance with the criteria specified. After conducted the selection based on predefined criteria, only 20 banks are used as a sample.

Result and Discussions

In this section, the panel data regression analysis is used to investigate the impact of corporate governance on bank's financial performance using return on equity and return on asset. Table 1 presents the regression results for all the variables reviewed in this research:

Table 1
White Cross-Section Test Result of Pooled Least Square

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.177374	0.898534	0.197404	0.8439
INST	0.494009	0.499809	0.988395	0.3255
MEET	0.002432	0.007539	0.322595	0.7477
DIR	-0.284987	0.053488	-5.328008	0.0000
INDEP	-1.471610	1.109080	-1.326874	0.1878
AUD	0.613461	0.099246	6.181210	0.0000

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From six variables have been tested prove that variable number of audit committee (AUD) has influence significantly to company performance (ROA) because the coefficient is positive and a probability value < 0.05. While institutional ownership (INST), board of commissioner activity (MEET), independent commisioner (INDEP), and Directors (DIR) do not have significant influence on performance of companies (ROA), because they have probability value > 0.05.

For the fisrt hyporesearch, the result of this research supports the result of the previous research of Rini and Ghozali (2012) which states that even though the higher value of institutional ownership does not guarantee the profitability of a company will be higher. It is because the degree of institutional does not have direct authority to influent and monitoring company so it will increase profitability indirectly. For the second hyporesearch, this research doesn't support research by Sam'ani (2008) which stated the board of commissioner activity has positive significant influence to company's performance. Board meeting frequency is used as formality and doesn't discuss about company's continuity and management's performance to increase profitability degree of the company. So, the higher frequency of board meetings doesn't guarantee any single increase within the company's performance. For the third research, this research supports research by Lukas and Basuki (2014) which stated positive significant relationship result may indicate that as long as the number of directors in the company is equitable, it will help the company to get better financial performance. For the fourth hyporesearch, this research supported research by Rini and Ghozali (2012) states that independent commissioner influence to ROA positively and significantly which means the higher independent commissioner, the higher company's profitability will be. Board of commissioner has important role in the implementation of good corporate governance, because board of commissioner as the core of corporate governance which is commissioned to ensure company's strategy implementation, supervise the management to run the company, and obligate the implementation of accountability. So, higher commissioner board's percentage, higher company's performance and profit will be. While the result of research conducted by Ridho and Aditya (2013) stated that independent commission has no significant influence to ROA. This might happen because independent commissioners which is involved in making decision process had less votes compared to other board commissioners so the quality of supervising function within the company is difficult to be improved and will interfere the increase of company's financial performance.

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