

## **Does the director aspect of Good Corporate Governance have an impact?**

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**Abstract:** *Good Corporate Governance has an important role in maintaining the sustainability of the company or organization. Evaluation of the implementation of Good Corporate Governance carried out on six aspects, such as commitment to the implementation of good corporate Governance in a sustainable manner, shareholders and the General Meeting of Shareholders (GMS), the board of commissioners, directors, information disclosure and transparency, and other aspects. The purpose of this study was to determine which aspects had a significant decrease in one of the BUMNs in Indonesia. The research method uses descriptive quantitative, with secondary data in the annual report. The results of this study stated that aspects of the directors received a score reduction in the 2016-2018 period, based on the implementation of Keputusan Sek Kemen BUMN No. SK-16/S.MBU/2012 several parameters become the area of improvement, including parameters for implementing training or learning programs, legislative implementation of organizational management and statutes, effectiveness and quality of internal supervision, compliance with GMS legislation, and openness information in the annual report submission.*

**Keywords:** *Directions; Good Corporate Governance; Implementation*

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### **I. Introduction**

The implementation of Good Corporate Governance can be a guide in making decisions for management, also can provide suggestions for stakeholders such as investors, governments, and others. So Corporate Governance is important to apply to a firm or organization. Implementation of Good Corporate Governance in Asia is quite a benchmark for the achievement of the performance of each of these countries. Comparison between McGee (2011) and Barghouthi (2018) conducted a study with the same theme in eight countries in Asia but different study periods with a difference of seven years showed the same results, that the best position for the implementation of Good Corporate Governance was obtained by India, Malaysia's next position, Korea, Pakistan, Thailand, Philippines, Indonesia and the lowest position by Vietnam. In the Barghouthi (2018) study, the countries of India and Vietnam had different scores on aspects of:

**Table 1** India and Vietnam GCG Score

Aspect	Score	
	India	Vietnam
Right of Shareholders	26	16
Equitable treatment of shareholders	11	9
Role of stakeholders in CG	17	12
Disclosure and Transparency	17	12
Responsibilities of the board	25	14

Table 1 proves that India has implemented Good Corporate Governance well compared to Vietnam. Some aspects that may be a matter of concern that must be corrected by the country of Vietnam.

The implementation of Good Corporate Governance in Indonesia is slightly superior compared to Vietnam. However, it is still far compared to India. The difference in scores of aspects of India and Indonesia are as follows:

**Table 2** Vietnam and Indonesia GCG Score

Aspect	Score	
	Vietnam	IDN
Right of Shareholders	16	17
Equitable treatment of shareholders	9	6
Role of stakeholders in CG	12	11
Disclosure and Transparency	12	11
Responsibilities of the board	14	18

Based on McGee's (2011) research, from eight countries, Indonesia has a disproportionate disclosure of control. Table 2 means that shareholders do not get proportional control in capital arrangements. Then for the aspects of Markets for corporate control, Indonesia and Vietnam have a low value. It means Markets for corporate control does not function efficiently and transparently. So it can be concluded that the implementation of Good Corporate Governance in Indonesia itself, several aspects are superior to Vietnam and vice versa.

The low rating obtained by the Indonesian state is a matter of concern to be improved. In Indonesia, companies that are encouraged to implement Good Corporate Governance are SOEs. It regulated in Undang-Undang Republik Indonesia Nomor 19 Tahun 2003 a concerning State-Owned Enterprises that BUMN shares owned by the government and are also pioneers for the private sector. However, the application of Good Corporate Governance itself is inseparable from the principles that have been set, such as transparency, accountability, responsibility, independence, and fairness. Based on the score, the implementation of this principle has not been entirely met.

The implementation of Good Corporate Governance in all aspects has an important role in maintaining and increasing the sustainability of a business or organization in the long run, in addition to the application of Good Corporate Governance that produces high scores can increase trust for investors, shareholders and other stakeholders. The implementation of Good Corporate Governance affects various financial and non-financial aspects for an organization or company, this is evidenced by the existence of several studies, as in Pratiwi (2016) research conducting research on the effect of Good Corporate Governance on financial aspects in Indonesian Islamic commercial banks in 2012- 2015 states that Good Corporate Governance has an influence on financial performance for Non-Performing Financing (NPF) Capital Adequacy Ratio (CAR) and operational costs; Rodriguez-Fernandez (2016) research proves that to produce good corporate Governance requires the consideration of the board of directors in conducting feedback between CSR and financial aspects; Sarbah & Xiao (2015) research states that registered and unregistered companies require the application of Good Corporate Governance, in addition to companies such as charities, non-governmental institutions and even agencies also require the application of Good Corporate Governance; Muda, Maulana, Siregar, & Indra (2018) conducted a study at the Indonesian Stock Exchange company, stating that simultaneously Good Corporate Governance indicators, namely the composition of commissioners and audit committees have an effect of a company's earnings management; Stuebs & Sun (2015) research states that Good Corporate Governance is closely related to the performance of social responsibility, this proves that good Corporate Governance will also provide good direction towards good social responsibility; Cheung et al (2014) study states that the practice of state corporate governance influences company performance; Qian & Yeung (2015) found that bank inefficiency undermined corporate Governance, which in turn hurt company performance.

Some of the benefits of implementing Good Corporate Governance based on the above research are that Good Corporate Governance needs to applied in a company or organization. The application is inseparable from the assessment because it is important to do to evaluate the implementation of Good Corporate Governance, improve service to stakeholders, provide accountability to stakeholders, can be used as material for decision making, and also improve company operations. GCG Assessment is regulated in Surat Edaran Bank Indonesia Nomor 15/15/DPNP regarding the Implementation of Good Corporate Governance for Commercial Banks, where the valuation method have done by integrating the assessment factors into 3 (three) aspects of Governance, namely governance structure, governance process, and governance outcome. The assessment must consider several factors including the implementation of the duties and responsibilities of the Board of Commissioners; implementation of the duties and responsibilities of the Directors; completeness and implementation of the Committee's tasks; handling conflicts of interest; implementation of the compliance function; implementation of the internal audit function; the application of the external audit function; application of risk management including internal control systems; provision of

funds to related parties and provision of large funds; transparency of the Bank's financial and non-financial conditions, GCG implementation reports, and internal reporting; and the Bank's strategic plan Assessment of Good Corporate Governance based on Keputusan Sek Kemen BUMN No. SK-16/S.MBU/2012 includes 6 (six) aspects, namely commitment to the implementation of Good Corporate Governance on an ongoing basis, shareholders and GMS, the board of commissioners, directors, disclosure of information and transparency, and other aspects. Based on the research of Salim, Arjomandi, & Seufert (2016), the positive association of board size and committee meetings has a significant effect on company efficiency. Cheung et al. (2014) state that institutional ownership and good company performance support the liquidity of company shares.

The importance of implementing Good Corporate Governance has received quite diverse responses, one of the BUMNs in Indonesia, X. In 2016, X won "the best Asia" for the implementation of Good Corporate Governance. The award was won because X has implemented discipline and transparency well (Widianto, 2016). However, in 2017, X's president director and deputy president director were dismissed from their positions; this was due to a leadership (Chandra, 2017). In 2019 there was a violation of Good Corporate Governance, the Managing Director of X acquired to enrich themselves (SFR, 2019). Based on these cases, inversely proportional to the assessment of the performance of Good Corporate Governance obtained by X, which always gets a score of more than 90. The mismatch between the score of Good Corporate Governance obtained with the current issue gives an illustration that this is interesting to study. This study provides an overview of the implementation of the score of the application of Good Corporate Governance in one of the SOEs in Indonesia, as well as what aspects experienced a decline in scores in 2016-2018.

## **II. Literature Review**

### *2.1 Good Corporate Governance*

The OECD defines corporate governance as a set of relationships between the company management, board and shareholders, and other parties who have an interest in the company. Corporate Governance also implies a structure, tools to achieve goals and 19 oversight of performance. Good corporate governance can provide a good incentive or incentive for boards and management to achieve goals that are in the interests of the company or shareholders and must facilitate effective monitoring, thus encouraging companies to use resources more efficiently.

In general, there are five basic principles of Good Corporate Governance contained in the Surat Edaran Otoritas Jasa Keuangan Nomor 13/SEOJK.03/2017 concerning Commercial Bank Governance, including:

- a) Transparency, namely openness in the decision making process and openness in presenting material and relevant information about the company.
- b) Accountability, which is the function of the structure, system, and responsibility of the company's organs so that the company's management is effective.
- c) Responsibility, namely, compliance in the management of the company to the principles of a good corporation and the applicable laws and regulations.
- d) Independence is a situation where the company is managed professionally without conflict of interest and influence/pressure from the management that is not by applicable laws and regulations and sound corporate principles
- e) Fairness, namely fair and equal treatment in fulfilling stakeholder rights that arise based on agreements and applicable laws and regulations.

One of the assessments of SOE Good Corporate Governance scores in Indonesia is using Keputusan Sek Kemen BUMN No. SK-16/S.MBU/2012, concerning Indicators / Parameters for Evaluation and Evaluation of the Implementation of Good Corporate Governance in State-Owned Enterprises. In the Keputusan Sek Kemen BUMN No. SK-16/S.MBU/2012 covers 6 (six) aspects in the assessment of Good Corporate Governance, such as commitment to the implementation of good corporate governance on an ongoing basis, shareholders and GMS, the board of commissioners, directors, disclosure of information and transparency and other aspects.

2.2 Performance assessment

X is one of the public sector organizations, namely SOE (State-Owned Enterprises). The Public Sector is a sector that provides services or goods for the public (community) needs. In its implementation, X is a public sector organization in the form of a quasi-non-profit organization or an organization that processes goods and services to be sold to the public and makes a profit.

Performance evaluation of Good Corporate Governance can be seen from the growth every year to see the trend of Good Corporate Governance performance in X whether positive or negative; this can be measured using growth performance measurement indicators according to Sukirno (2004)

$$y = \frac{GCG_t - GCG_{t-1}}{GCG_{t-1}} \times 100\%$$

Y = rate of GCG growth

GCG t = Good Corporate Governance now

GCG t-1 = Good Corporate Governance in the previous year

**III. Methodology**

This type of research is a literature study, research conducted on written works both that have been and have not been published (Melfianora, 2017). The nature of this research is quantitative descriptive. The approach used in this study is philosophical and pedagogical. The data used in this research is secondary data. The secondary data sources in question are in the form of books and major scientific reports contained in articles or journals. The data source of this research is X's 2016-2018 annual report.

**IV. Result**

4.1 Growth in Good Corporate Governance

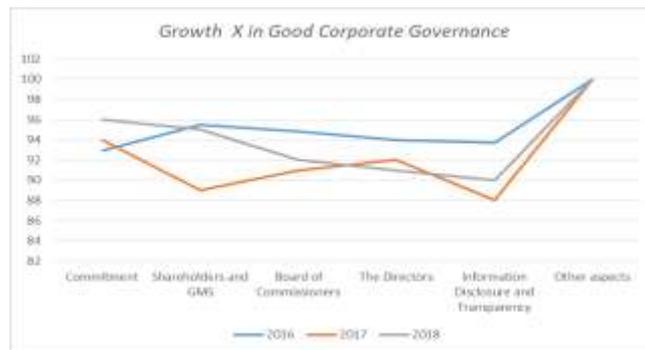
The acquisition of the Good Corporate Governance score is obtained from various aspects in table 3 so that from this score, the percentage of growth can be seen each year.

**Table 3** The GCG implementation assessment score

Aspect	2016	2017	2018
Commitment to Sustainable Implementation of Good Corporate Governance	92,94	94	96
Shareholders and GMS	95,48	89	95
Board of Commissioners	94,83	91	92
The Directors	93,98	92	91
Information Disclosure and Transparency	93,73	88	90
Other aspects	100	100	100
<b>JUMLAH</b>	<b>94,62</b>	<b>91</b>	<b>92</b>

source: annual report x 2016-2018

**Graphic 1** Growth X in GCG



source: annual report x 2016-2018 (data processed)

The acquisition of a score of Good Corporate Governance in 2015 was 94.50. The percentage of growth in X's Good Corporate Governance from 2016-2018 described as follows:

$$2016 = (94.62 - 94.50) / 94.50 \times 100\% = 0.00127$$

$$2017 = (91 - 94.62) / 94.62 \times 100\% = -0.03826$$

$$2018 = (92 - 91) / 91 \times 100\% = 0.01099$$

In 2016 the growth performance of Good Corporate Governance received a score of 0.00127 or positive. This means that aspects of Good Corporate Governance have been implemented well. While in 2017 the percentage was -0.03826 or negative, this shows a decrease in the implementation of Good Corporate Governance, and in 2018 an increase by getting a percentage of 0.01099 or positive, meaning that the implementation of Good Corporate Governance in X could return the implementation his.

Drastic reduction in the implementation of Good Corporate Governance in 2017 was found in the shareholders and GMS indicators of 6.48 and transparency of information by 5.73, meaning that in 2017 there were things or information that was not publicly published to the public. There were GMS that were not carried out by the implementing regulations Good Corporate Governance. If reviewed annually from 2016-2018, the aspect that has decreased every year is the director's aspect. Aspects of directors in 2016 amounted to 93.98. In 2017 it fell by 1.98 scores to 92, and in 2018 it dropped by one score to 91. The score of Good Corporate Governance assessment is set in Keputusan Sek Kemen BUMN No. SK-16/S.MBU/2012, where aspects of directors have 13 indicators and 52 parameters.

#### *4.2 Implementation of the Directors' Aspect Assessment*

There are recommendations or areas of improvement aspects of directors listed in X's 2016-2018 annual report, as follows:

##### **25. Directors carry out training/learning programs on an ongoing basis**

84. The newly appointed Directors follow an introduction program organized by the company.

- There is an orientation program in the form of:

1) Town Hall Meeting which was held twice during 2016 with the activities of the director of the policy on the commemoration of Indonesia's historic days; 2017 declined because it was held once on May 9, 2017, with the discussion on Presentation Preparation for the Mahakam Block (HR Town Hall); in 2018 there was no town hall meeting

2) Management Walk Through (MWT) and Site Visit followed by the managing director on April 28, 2016, in Raja Ampat, upstream director on July 21, 2016, in Bojengoro and March 27, 2016, in the upstream las field, gas director on January 21, 2016, in Semarang, director of the mega project on January 14, 2016, in Balongan, financial director on November 16, 2016, in Bojonegoro; in 2017 there was no MWT; in 2018 there was no MWT.

3) Directors' Meeting

**Table 4** Directors' Meeting

Nama	2016		2017	2018
	Jan 1 – 19 Oct	20 Oct – 31 des		
EMM			71	Not submitted in the annual report
DS	100	100	33	
AB	66.66	88	100	
SA	84.62	88	90	
YA	66.66	66.66	80	
Abd	89.74	100	33	
DWD	76.92	100	100	
RH	82.05	88.88	66	
T	-	77.77	90	
MI	-	77.77	60	
GH			75	
ANM			50	
NW			100	

source: annual report x 2016-2018 (data processed)

- 4) Directors 'and Commissioners' meetings in 2016 were held 48 times in 1 year; in 2017, it will be conducted ten times in 1 year; 2018 was conducted 19 times in 1 year.
- 5) Submission of Company Profile
- 6) Submission of Collective Labor Agreements (PKB)
- 85. The Board of Directors implements training programs in order to increase the competencies of members of the Board of Directors as needed.

**Table 5** Training Program directors

Position	2016	2017	2018
UtamaPresident Director	2	7	Not submitted in the annual report
Deputy Chief Director	14		
Hulu director	1		
Gas director	12	8	
Director of marketing	1	4	
Megaproject director	1	8	
Director of Finance	2	8	
HR director	1		
Director of Processing		3	
Director of Planning		3	
Director of asset management		16	

source: annual report x 2016-2018 (data processed)

**26. The Board of Directors carries out a clear division of duties/functions, authorities, and responsibilities.**

- 86. Directors determine the structure/composition of the organization by the company needs
- 87. The Board of Directors sets operational policies and standard operating standards (SOPs for the company's core business processes)
- 88. The Board of Directors determines the decision-making mechanism for the company's actions

**27. Directors prepare company plans**

- 89. The Board of Directors has a Long-Term Plan (RJPP) which is approved by the GMS / Capital Owners
- 90. The Board of Directors has a Work Plan and Corporate Budget (RKAP) which is approved by the GMS / Minister / Capital Owner
- 91. Directors place employees at all levels of position by job specifications and have a succession plan for all positions in the company.

92. The Board of Directors responds to proposed business opportunities that have the potential to increase company revenue, savings/efficiency of the company, utilization of assets, and other benefits.

93. The Board of Directors responds to current external issues regarding changes in the business environment and its problems in a timely and relevant manner.

**28. Directors play a role in meeting company performance targets.**

94. The Board of Directors implements programs/activities by the RKAP and makes decisions as needed through adequate and timely analysis.

95. Directors have a system/guidelines for measuring and evaluating performance for units and positions in the organization (structural) that are applied objectively and transparently.

96. The Board of Directors sets performance targets based on the RKAP and is leveled down at the unit, subunit and position levels within the organization (structural) in the organization

97. Directors conduct analysis and evaluation of performance achievements for positions/units under the Board of Directors and company level.

98. The Board of Directors reports the implementation of the performance management system to the Board of Commissioners / Board of Trustees

99. The Directors compile and submit to the GMS / Capital Owners regarding proposed performance incentives for the Directors.

100. The Board of Directors implements a system of information technology by established policies.

101. Directors implement a system to improve product and service quality

102. Directors carry out the procurement of goods and services that benefit the company, both the price and quality of the goods and services

103. The Board of Directors develops HR, evaluates performance and provides appropriate remuneration, and builds an effective HR environment that supports the achievement of the company.

104. Directors implement regulatory policies for subsidiaries (subsidiary governance) and joint ventures.

**29. The Board of Directors carries out operational and financial control over the implementation of company plans and policies.**

105. The Board of Directors implements accounting policies and prepares financial reports by generally accepted financial accounting standards in Indonesia (SAK).

106. The Board of Directors implements risk management by established policies.

107. The Directors establish and implement an internal control system to protect and secure investment and company assets.

108. The Board of Directors follows up on the results of the examination of SPI and external auditors (KAP and BPK).

**30. The Board of Directors carries out the management of the company by the applicable laws and regulations and the articles of association**

109. The Board of Directors establishes a mechanism for maintaining compliance with laws and regulations and agreements with third parties.

110. The company runs the applicable laws and regulations and agreements with third parties.

• In 2016 the management of the company was not clearly stated in the annual report

**31. The Directors make a relationship that adds value to the company and stakeholders.**

111. Implementation of customer relationships.

112. We are implementing relationships with suppliers.

113. Implementation of relationships with creditors.

114. Implementation of obligations to the State

115. We are implementing relationships with company employees.

116. There are written procedures for accommodating and following up with stakeholder complaints.

117. Efforts to increase shareholder value consistently and continuously.

118. The company carries out corporate social responsibility to support the sustainability of the company's operations.

**32. The Board of Directors monitors and manages the potential conflict of interests of members of the Board of Directors and management under the Board of Directors.**

119. The Board of Directors establishes a policy regarding the mechanism for Directors and structural officials to prevent the taking of private and other parties' benefits due to conflicts of interest.

120. The Directors implement policies to prevent conflicts of interest.

**33. The Board of Directors ensures that the company carries out disclosure of information and communication by applicable laws and regulations and the delivery of information to the Board of Commissioners / Supervisory Board and Shareholders on time.**

121. The Directors report relevant information to the Shareholders and the Board of Commissioners / Supervisory Board.

122. The Board of Directors provides fairness in providing information to Shareholders and members of the Board of Commissioners / Supervisory Board.

**34. The Board of Directors holds Board of Directors meetings and attends Board of Commissioners / Board of Trustees Meetings by statutory provisions.**

123. The Board of Directors has guidelines/rules of conduct for the Board of Directors' Meeting, minimally regulates meeting ethics and preparation of minutes of meetings, evaluation of follow-up to the results of previous meetings, as well as discussion of directives/proposals and decisions of the Board of Commissioners / Supervisory Board.

124. Directors hold Directors' Meetings as needed, at least once a month.

125. Members of the Board of Directors attend every meeting of the Board of Directors or Board of Directors & Commissioners, if unable to attend, the person must explain the reason for his absence

126. The Board of Directors evaluates the implementation of the decisions of the results of the previous meeting.

127. The Board of Directors follows up on the directives and decisions of the Board of Commissioners / Supervisory Board.

**35. The Board of Directors conducts quality and effective internal supervision.**

128. The company has an Internal Control Charter established by the Directors.

In 2016 there was the only charter for an audit committee, remuneration and nomination committee, risk management monitoring charter, internal audit charter, directors charter. However, in 2017 there was also no evaluation of the internal control charter by the directors. In 2018 only revealed the internal audit charter, and the risk management charter was updated and signed by the directors on November 1, 2017.

129. SPI / Internal Audit Function is equipped with supporting factors for success in carrying out its duties.

In 2016 there were only Internal Audit Function Management Guidelines No. A-001 / J00000 / 2015-S9 Revision 1 dated February 17, 2016

130. SPI carries out internal supervision to provide added value and improve company operations.

In 2016 the Internal Control System conducted internal controls on operational activities, financial reporting, and evaluation of the effectiveness of the internal control system.

**36. The Board of Directors carries out quality and effective corporate secretary functions.**

131. The Corporate Secretary is equipped with supporting factors for the successful implementation of his duties.

132. Company secretaries carry out their functions.

133. Directors evaluate the quality of the corporate secretary function.

**37. The Board of Directors holds an Annual GMS and other GMS by statutory provisions.**

134. The Board of Directors convenes a GMS by the procedures set out in the Articles of Association and laws and regulations.

135. The Board of Directors provides access and complete explanation and accurate information regarding the conduct of the GMS so that they can exercise their rights based on the articles of association and laws and regulations.

In 2016, point 37 became an area of improvement. However, the financial statements are not disclosed clearly about anything that is not by the articles of association and legislation.

Based on this discussion there is an area of improvement in 2018 including the annual report submitted in 2018 which is not informative enough so that it needs to be improved, company policies and procedures must be reviewed and needs improvement, existing policies and procedures need to be implemented consistently and last in each activity undertaken in connection with Good Corporate Governance practices must be documented.

## V. Conclusion

One of the BUMNs in Indonesia, X, had a good performance in 2016. However, in 2017 it experienced a drastic decrease due to several aspects including the directors' aspect; in 2018, there was a total increase, but the directors' aspect continued to decline due to an area of improvement on parameters number 25, 26, 30, 35 and 37. Recommendations for deficiencies in 2016 did not become a basis for evaluating the following year, so the scores for aspects of directors continued to decline. This can have an impact on other aspects, such as the deterioration of the company's image. The next recommendation for BUMN companies in Indonesia is to pay more attention to the area of improvement and make improvements every year, so that aspects of performance do not decline. For further research, it is expected to examine more than one company.

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