



 **universitas  
bandar lampung**  
SCHOOL OF POLITICAL AND SOCIAL SCIENCE  
Bandar Lampung University, Indonesia

# **Icon-LBG** 2016

## **The Third International Conference on Law, Business and Governance**

# **PROCEEDINGS**

Hosted by  
Faculty of Law, Faculty of Economics and Faculty of Social Science  
Bandar Lampung University (UBL)



# Icon-LBG 2016

THE THIRD INTERNATIONAL CONFERENCE  
ON LAW, BUSINESS AND GOVERNANCE 2016

20, 21 May 2016  
Bandar Lampung University (UBL)  
Lampung, Indonesia

## PROCEEDINGS

Organized by:



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## **PREFACE**

The Activities of the International Conference are in line and very appropriate with the vision and mission of Bandar Lampung University (UBL) to promote training and education as well as research in these areas.

On behalf of the Third International Conference on Law, Business and Governance (3<sup>th</sup> Icon-LBG 2016) organizing committee, we are very pleased with the very good response especially from the keynote speaker and from the participants. It is noteworthy to point out that about 46 technical papers were received for this conference.

The participants of the conference come from many well known universities, among others : International Islamic University Malaysia, Unika ATMA JAYA, Shinawatra University, Universitas Sebelas Maret, Universitas Timbul Nusantara, Universitas Pelita Harapan, Universitas Bandar Lampung, Universitas Lampung.

I would like to express my deepest gratitude to the International Advisory Board members, sponsor and also to all keynote speakers and all participants. I am also grateful to all organizing committee and all of the reviewers who contribute to the high standard of the conference. Also I would like to express my deepest gratitude to the Rector of Bandar Lampung University (UBL) who give us endless support to these activities, so that the conference can be administrated on time

Bandar Lampung, 21 May 2016

**Mustofa Usman, Ph.D**  
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# THE INFLUENCED OF GOOD CORPORATE GOVERNANCE TO CORPORATE SUSTAINABILITY

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## Abstract

The purposed of this researched is to know the influenced of good corporate governance to corporate sustainability. The data was taken from 30 manufacturing companies and 15 mining companies. The regression analysis will be used in this researched. The result showed that good governance as dependent variable influenced positively and significant to corporate sustainability. T result only had small number of R squared so it might say that there was another variables that could influenced to corporate sustainability.

*Keyword: Good Corporate Governance, Corporate Sustainability.*

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## 1. INTRODUCTION

The financial statements contained of balance sheet, the income statement, the retained earnings statement and the statement cash flows that are related to and had ability to make different decision. This was also believed cannot make information bias, accurate and could be verified. Accounting defined as providing "quantitative information, primarily financial in nature, about economic entities that is intended to be useful in making economic decisions." Accounting in firms provided accounting information as standard so that it could be used for decision making. In annual report, all the information could be used as data when we would have corporate sustainability information. Annual report contained of financial report, corporate governance report and corporate social responsibility report.

According to Brundtland Report (1987) sustainable development was the development whereas to fulfill the future needs without compromise to next generation to fulfill their owned needs. Based on the definition above, it could be narrowed to sustainability for firm. In the context corporate sustainability could be defined as laden umbrella concept where triggered to business, social and environment management (Visser, 2007).

The measurement of this corporate sustainability could give index value so that the company could have their competition through this value. However, there is the measurement of corporate sustainability using good corporate governance measurement. It means that the measurement of good corporate governance system showed that corporate sustainability value (Asaki&Asaoka, 2003).

When the crises came in year 1998 in Indonesia, it could not be avoided and it could be showed how important of the good corporate governance implementation in the firms. Until now all the firms in Indonesia struggled to implement good corporate governance.

Definition of good corporate governance was stated by for Economic Cooperation and Development (OECD) was as following :

*"Corporate governance is the system by which business corporation are directed and controlled. The corporate governance structure specifies the distribution of the right and responsibilities among different participants in the corporation, such as the board, managers, shareholders and other stakeholders."*

According guidance book of *Good Corporate Governance* year 2006 in Indonesia, Board of Directors had function to apply firm management. Primary function of Board of Directors are as following:

- a) Firms, made vision and mission of firms for short and long period.
- b) Risk Management, implementation from risk management with purposed to all aspects in firms.
- c) Internal control, obeyed the existing rules to asset management for internal control activities.
- d) Communication, good communication between firms and corporate secretary function.
- e) Social responsibility, made clear plan and goal to implementation of corporate social responsibility.

According to Jill Solomon and Aris Solomon had written in the book *"Corporate Governance and Accountability"* year 2004 defined as following:

*Corporate governance is the system of checks and balances, both internal and external to companies, which ensures that companies discharge their accountability to all their stakeholders and act in a socially responsible way in all areas of their business activity.*

Asian Development Bank (ADB, 2001) defined: *A corporate governance system consists of*

- a) A set of rules that define the relationship between shareholders, managers, creditors, the government and other stakeholders (i.e., their respective rights and responsibilities*
- b) A set of mechanism that help directly or indirectly to enforce these rules.*

#### **A. Problem**

Implementation of good corporate governance in Indonesia is still weak. It can be shown from manufacturing compared to other countries such as China manufacturer. More, China population is huge so that the demand of goods relatively high compared to Indonesia. The different implementation of good corporate governance is also different from other countries. This researched investigated the influenced of good corporate governance to corporate sustainability. The motivation of this researched is to support and build the good corporate governance system and the good implementation become realization in Indonesia. This researched tested as follows:

- a) What is the influenced positively to Good Corporate Governance to Corporate Sustainability?

The purposed of this researched is to know whether the good corporate governance influenced positively to corporate sustainability.

#### **B. Contribution of Researched**

The result is expected to be used practically and support government in giving rules related to good corporate.

## **2. LITERATURE REVIEW**

This researched took based on regulation number 40 year 2007. It stated that social responsibility and environment is the commitment of firm acted in economic sustainable development to increase quality of life and environment that could be used and good for firms, community and public. It is expected this researched may give not only for social responsibility but also environment through firm activities.

The agency problem (contractual view of the firms) was developed by Jensen and Meckling (1976) and Fama and Jensen (1983) have the essence the separation of management and finance, in other words, separation of ownership and control. All data had to have historical data by implementing *the good corporate governance*. *Good Corporate Governance* is needed in management for firm activities from time to time. In Indonesia, there is *two-tier board*: Board of Commissioners and Board of Directors when board of director do firm management and board of commissioners are as controller.

As supporting good corporate governance in Indonesia, Government established the National Committee on Corporate Governance in year 1999. On November year 2004, this committee became the National Committee on Governance (KNKG) with wide responsibility. The scope contained of the corporate governance policies not only corporate but also public sector. This committee has function to initiate the development of good governance the same as the improvement of corporate governance in Indonesia.

Aras & Crowther (2008) showed that good governance as basic to continue corporate operational and this study gave sustainability concept. Byun, Kwak & Hwang (2008) tested the relation between good governance and cost implication of equity capital through observation from sample of firms started year 2001 until year 2004. The result found that good governance negatively related to equity capital cost estimation implication. Other word, good corporate governance is expected to support performance of variable to influenced corporate sustainability.

#### **“Corporate Governance” theory**

*Corporate governance index is a calculation of scores associated with the implementation of corporate governance in a company. Corporate governance index indicates the value of a comprehensive implementation of corporate governance in a company. Use of corporate governance index as a proxy of corporate governance aims to examine corporate governance with a more comprehensive measure so that the results obtained can describe the relationship of corporate governance with other variables more thoroughly.*

*These are the Principle of Corporate Governance that supposed to apply in every firm without exception:*

- a) Transparency : has to provide relevant information.*
- b) Accountability : responsible to transparent activities and performance*
- c) Responsibility : obey the rules*
- d) Independency : firm is managed independently*

e) *Fairness : Based on fairness in activities*

Table 1. Researched Design



### 3. RESEARCHED METHODOLOGY

The purposed of *good corporate governance*:

- a) *To reduce agency problem*
- b) *Firm Transparency*
- c) *To avoid insider trading*

#### Sample

Sample in this researched contained of 30 manufacturer companies and 15 mining companies. The total population was 181 companies.

#### Collecting Data Method

This researched was using secondary data from existing firms in Indonesia Stock Exchange. The annual reports were taken for measurement of both corporate sustainability and good corporate governance. Data started from year 2010 until year 2012 (3 years). Data was limited to manufacture companies and mining companies because of those companies mostly have much waste and pollution. The regression used for finding the result and equation of this researched.

Regression using panel data called regression model of panel data. The benefit of using panel data is as following:

1. *Panel data contains of time series data and cross section that has ability to provide much more data so that it will bring the higher degree of freedom.*
2. *To gather information from time series data and cross section can solve the existing problem when it has omitted variable.*

If contained of cross section data and time series data, it called balance panel. If units had differences of number of observation from time series data and cross section, it called unbalanced panel. Regression approached panel data are common effect, fixed effect, and random effect (using EVIEWS).

Table 2. Variable measurement

No.	Variable	Dimension	Indicator	OprVar
1	CO_SUST (var. dependen)	Attention in detail, Outcome Orientation, People Orientation, Team Oriented, Aggresiveness, Legal/Regulation, Environment sensitivity, Economic Approach, Social Responsibility, Ethical, Sustainability Technology, Demographic, Innovation, Knowledge Oriented, Operational Management, Accounting Information System, Market Oriented.	1. Virtual entitas, 2. Network entitas, 3. Learning entitas, 4. Achieving the organization stated purposes 5. Financial result, 6. Product & service, 7. Cont. innovation, 8. High commitment to training & development, 9. High job security, 10. Creative people, 11. Mutual trust 12., Unified commitment, 13. Good comm., 14. Negotiation skill, 15. Appropriate leader, 16. Int. & ext. support, 17. Leadership, 18. managerial rules, 19. Gov't regulation, 20. Legal approach, 21. Market approach, 22. Stakeholder approach, 23. Activity approach, 24. Decreasing of waste and water and air pollution, 25. Damage control, 26. Increasing capacity, 27. Assertion, 28. Future oriented, 29. Gender differentiaon, 30. Uncertainty evoidance, 31. Power distance, 32. Individual collectivism, 33. Performance oriented, 34. Human oriented, 35. Public expectation, 36. Long run profit, 37. Ethical obligation, 38. Public image, 39. Better environment, 40.	Index (17 dimension 70 indicators)

			<p><i>Discouragement of further governmental regulation, 41. Balance of responsibility and power 42. Stockholder interest, 43. Possession of source, 44. Superiority of prevention over cures, 45. consensus of wrong,46. Prob. of harm, 47. Immediacy of concequences,48. Proximity to victim, 49. Concentration on effect, 50. Greatness of harm, 51. Introducing new equip.,52. Introducing tools, 53. Introducing operating method, 54. Science (knowledge), 55. Entity location, 56. Distribution activities, 57. Product dev't, 58. Communication between organizational 59. Creation value, 60. Education, 61. Applied approp. Information, 62. Explore research, 63. Quality product oriented,64. QC, 65. Reporting tools, 66. Information management, 67. AIS benefit to firm, 68.Fulfill information requirement, 69. Market segmentation, 70. Market activities.</i></p>	
2	CG (var. moderasi)	Indikator	<p><i>1.Information about firm goal, 2.Verification of activities information, 3.Certainty of activity report, 4.Giving collective report, 5.Information about shareholder changing, 6.No. of board of Director, 7.Ethics implementation, 8.Investment protection, 9.Shareholder protection, 10.Recruitment and firing, 11.Conflict of interest, 12.Basic rules in firm in information openness, 13.Structure of good governance, 14. Good governance applied by top management, 15. Governance effectivity in firm, 16.Using big auditor or not, 17.Independend institution to support management works in GCG, 18.Delegation of work to employee, 19.Management report, 20.Strategy of good corporate governance, 21.Supporting institution for shareholder work, 22.Service give to customer, 23.Important GCG principle impelementation, 24.Socio economic performance in firm, 25.ISO 14000.</i></p>	Index (25 indicators)

*Good corporate governance* is the maximum application to reach maximum impact to accounting implementation in firms and government.

Equation:

$$Y = \beta_0 + \beta_1 X_1 + e$$

Dependent variable

Y = Corporate Sustainability

Independent variable

X1 = Good Corporate Governance

#### 4. RESULT

Table 3. Result

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.465323	0.058374	7.971424	0.0000
CG?	0.227443	0.076217	2.984133	0.0037
R-squared	0.941554	Mean dependent var		0.639471
Adjusted R-squared	0.912002	S.D. dependent var		0.053316
S.E. of regression	0.015816	Akaike info criterion		-5.190777
Sum squared resid	0.022262	Schwarz criterion		-4.200831
Log likelihood	396.3774	F-statistic		31.86138
Durbin-Watson stat	2.242483	Prob(F-statistic)		0.000000

Equation

$$Y = 0.465323 + 0.227443 X_1 + e$$

Every increase of 0.227443 of Good Corporate Governance so that Corporate increase would increase of one percentage. Good Corporate Governance (CG) is significant and influenced positively to Corporate Sustainability. It can be concluded that the result supports hypothesis. Good Corporate Governance increases as much as 0.227443 so that the Corporate Sustainability increases. It is only about 94 percent as independent variable (CG) influenced to Corporate Sustainability It means the commitment of firm to implement good corporate governance in firm activities. It also shows that the good implementation of good corporate governance will enhance the firm value. If the firm value increases, then the firm has ability to have market competition. The result shows the good governance theory support the hypothesis.

Standard error of firm is 0.02 closed to 0 shows that the uses of secondary data reliable in this research. Log Likelihood of (-2LL=-2\*396.3774) shows that value of Corporate Sustainability that can be reach as high as possible. Akaike value (-5.190777) and Schwarz (-4.200831) both have value below 0 that shows model is good in this research.

#### 5. CONCLUSION

Conclusion is that Good Corporate Governance influenced positively and significant to Corporate Sustainability. It is suggested to add more independent variable as factors that influenced Corporate Sustainability. It suggested to compare this measurement of good corporate governance and corporate sustainability to another measurement.

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