DO GOOD CORPORATE GOVERNANCE (GCG) AND INTEGRATED CORPORATE GOVERNANCE (ICG) IMPROVE PERFORMANCE AND REDUCE FRAUD IN INDONESIAN PUBLIC BANKING?

Tugiantoro¹
Khomsiyah²*
Ari Purwanti³

¹STIE Bhakti Pembangunan
²Universitas Trisakti
³Universitas Dian Nusantara
*khomsiyah@trisakti.ac.id

Abstrak

Kata kunci: Fraud; Kinerja; Kualitas Aset; Tata Kelola Perusahaan; Tata Kelola Terintegrasi.

Abstract
The purpose of this study is to examine whether the implementation of GCG and ICG increase performance and reduce fraud on public banking in Indonesia while using Asset
Quality as a moderating variable. This study is a causality study with 27 banks as samples on the period of 2015-2018. GCG and ICG assessed using content analysis on disclosures that are available in the bank’s annual report. Performance is measured from stock performance and financial performance. Fraud is measured based on Beneish M. Score (2009) using the 5 (five) indexes measuring DSRI, GMI, AQI, SGI, and TATA. Partial-Least Square Structural Equation Model (PLS-SEM) was used in testing the study model. The result of this study showed that the GCG impact positively on the Stock Performance, and Financial Performance and impact negatively on Fraud. ICG on the other hand impact positively on Stock Performance, and Financial Performance, however, there is no influence against Fraud. The control variable Leverage (Lev) shows a negative influence on Stock Performance, the Capital Adequacy Ratio (CAR) shows a positive influence on Financial Performance, and the Loan to Deposit Ratio (LDR) shows a positive influence on Fraud. Asset Quality as a moderating variable can strengthen the influence of GCG on Financial Performance and Fraud. It can also strengthen the influence of ICG on Financial Performance. However, the moderating variable Asset Quality did not strengthen the influence of GCG on Stock Performance, nor did it strengthen the influence of ICG on Stock Performance and Fraud. In F-Test, GCG and ICG were simultaneously affecting the Stock Performance, Financial Performance, and Fraud.

Keywords: Fraud; Performance; Asset Quality; Corporate Governance; Integrated Corporate Governance.

JEL Classification : G32, G34, G21, G38, M41, M42, E58

Submission date : February 2022 Accepted date : April 2022
*Corresponding Author

INTRODUCTION

Study on corporate governance is always an interesting thing because shareholders and other stakeholders want the business to be managed transparently and produce high performance with no fraud in it. Companies in their operations always maintain and improve performance to develop and survive the competition in business. The Association of Certified Fraud Examiners (2020) recorded 2,504 cases of fraud from 125 countries with a median loss of USD 8,300 per month, and in Indonesia there were 29 cases of fraud. Fraud cases with banks include, among others, the former Managing Director of BTN, receiving gratuities from debtors in the amount of Rp. 2.257 billion and Rp. 870 million, burglary of customer deposits by Maybank employees in the amount of Rp. 22 billion, cases of embezzlement of Citibank N.A. customer funds in the amount of Rp. 17 billion in 2011, embezzlement of PT Elnusa Tbk. funds worth of Rp. 111 billion at Bank Mega in 2009-2010, burglary of BTN funds of Rp. 250 billion in 2016, fictitious L/C cases at BNI amounting to Rp. 1.7 trillion in 2002-2003. The self-assessment of GCG at all of that bank is good value. This illustrates the failure of the bank in implementing corporate governance at all of that banks. This phenomenon is interesting to study, how companies attempt to improve performance in terms of financial performance and share prices in the capital market, to be trusted and attractive to
investors. Efforts to maintain confidence and attract investors, companies implement GCG in running their business. The emergence of the concept of corporate governance was due to the public's demand for honest, clean, and responsible companies. There are two views in the objectives of governance theory, namely to study how managers organize corporate governance according to existing rules, and how management is regulated, this is to exercise control over managers.

Corporate governance not only set a particular organization but applied wider within the organization/company (Tosuni, 2013). Corporate governance problems also occur in Indonesia, the banking crisis at the end of 1997 in Indonesia forces the authorities to close 15 banks (Kusuma, 2015). KNKG (2004) stated that the banking crisis was caused not only by the economic crisis but also by the lack of GCG and organizational ethics. The government undertakes a restructuring and recapitalization of banks to restore public confidence in the financial, which will provide long-term influences and fundamentals followed by the following steps, (i) attitude adhere to the principles of conservative, (ii) Application of GCG, and (iii) Supervision from Bank Supervisory Authority (KNKG, 2004).

Corporate governance is always implemented in line with business and economic conditions and developments. In order to encounter the increasingly complex global business development that is full of risks and challenges, the phenomenon of corporate governance is implemented in an integrated manner within the same group. Lately, GCG application has changed to an integrated application of businesses within the same group of companies, as well as the integration of Corporate Governance in terms of Governance, Risk and Compliance (GRC). GRC is an application of governance, risk, and compliance that is holistic and integrated within the organization, aimed at increasing the effectiveness and efficiency of the organization as well as overseeing actions to conform to ethics and risk appetite (Vicente and Silva, 2011).

The Financial Services Authority of Indonesia (OJK) (2014a) stated that integrated corporate governance is also applied to banks in Indonesia in the same financial conglomerate group, consisting of assessments of: 1). Implementation of duties and responsibilities of: a). board of directors of the main company, b) committee of commissioners. 2). Tasks and responsibilities of: a). Integrated Governance Committee, b). Integrated of Compliance Work Unit, c). Integrated of Internal Audit Work Unit. 3). Implementation: a). integrated of risk management, b). integrated governance guidelines. In this study, the authors added measurement development which is a novelty in study, namely “Coordination in financial conglomerates”. The purpose of adding these measurements is to improve performance and reduce the incidence of fraud. Fraud that occurs in companies within financial conglomerates will be a concern if the fraud affects the overall financial conglomerate. With coordination within the financial conglomerate, fraud can be detected before it occurs, so it is hoped that it will improve performance and reduce fraud itself. The goal of implementing an integrated corporate governance is to create a business in the financial sector that is sustainable and stable, while at the same time increasing the performance and value of the company in order to have high competitiveness in business competition (OJK, 2015).

In banking, governance assessment is a part of Risk-based Bank Rating. Bank Rating Level is a quantitative and qualitative assessment according to the bank conditions from bank risk factors (OJK, 2014b). The risk assessment factors in RBBR consist of an assessment of GCG, the existing risk profile (risk profile), profitability (earnings), and
capital. Assessment of rating is one of the monitoring tools for the authorities in supervising bank operations.

Investors in making investments will judge from companies that provide good performance, investors will avoid investing in companies that are exposed to fraud. Under OJK (2019), fraud is an act of direct or indirect monetary gain, while some parties suffer losses or damages from such acts. Fraud is one of the criminal acts that obtain financial benefits for the perpetrator (Bologna et al., 1996). Cressey (1958) found that there are 3 factors inside triangle of fraud, which is opportunity, pressure and rationalization. Their application can be in the form of: 1) action, 2) concealment, 3) conversion.

Assessment of performance in this study is being measured by External Performance of Stock Performance that was sold in the capital market and the Financial Performance of the Bank Financial Performance in doing the activity where operations are done. Stock Performance measurement, namely calculating the return by calculating the risk (risk-adjusted return) that must be borne by investors. Performance is the utilization of the company's resources to achieve the company’s objectives (Fred, 2012). Khomsiyah (2005) explains that financial reporting is a means to monitor the activity of the agent/management. Whereas to objectively measure the achievement of the need for funds originating from banks and investments, it is assessed from performance (Heremans, 2007). The well-implemented of GCG and ICG, which include the application of governance in banks as well as integrated into financial conglomerate, is expected to increase the stock performance as well as the financial reporting that banks released to the public.

The previous study about the GCG and stock performance has been done, but with some different variable indicators that resulted in different study results. Previous studies on the effect of GCG on stock performance include: Bistrova & Lace (2011), in a study of Central and Eastern European companies, found that companies with good CG quality are able to offer low risk on stock prices. This is in accordance with the study of Mulyono et al. (2018) where companies in Indonesia found out that corporate governance and company performance significantly affect stock prices. Board of commissioners, independent commissioners, and managerial ownership have a positive and significant effect on stock returns (Rahmawati & Handayani, 2017), and according to Ulum research (2017) that GCG affects stock prices. This condition is an interesting reason to do a study regarding the influence of GCG on performance. In this study, GCG assessment is per the assessment of OJK No.13 / SEOJK.03 / 2017, as well as performance using the assessment of stock portfolio indicators in terms of Jensen's Alpha, Sharpe Ratio, RDIV (Reward to Diversification), RI (Information Ratio), and Tobin's Q.

The use of Jensen's Alpha, Sharpe Ratio, RDIV (Reward to Diversification), RI (Information Ratio), and Tobin's Q as a measurement of Stock Performance indicators is because these measurements calculate the return taking into account the risk (risk-adjusted return) that must be taken by the investor. Meanwhile, the measurement of Financial Performance in this study is Return on Equity (ROE) and Return on Assets (ROA). The application of GCG in banks, as well as the integrated application of ICG in financial conglomerates, is expected that the performance of share prices and financial performance will improve. This is what underlies this study, that in addition to the GCG variable, the ICG variable will also improve performance both externally and internally. Based on the examination conducted in the previous study, the integrated governance variable is integration in governance, risk, and compliance (GRC), however, in this study
Do Good Corporate Governance (GCG) And Integrated Corporate Governance (ICG) Improve Performance And Reduce Fraud In Indonesian Public Banking?

the only study indicators used are the governance side, namely ICG assessment from form letter of OJK No.13 of 2017 and assessed according to disclosures of banks annual report. In this study, the application of ICG in a financial conglomerate properly is believed to produce a good performance as well.

Based on testing with different variable indicators in previous research on CG and financial performance, it shows different results. Elbahar's research (2016), concluded that the relationship between CG and performance of Islamic and conventional banks, has a positive and significant capital ratio for ROA in all types of banks, board size is significant and positive for ROE and ROA in all types of banks. Pratiwi (2016) in his research on banks in Indonesia, states that the quality of GCG implementation (assessment with 11 indicators), has a significant positive effect on CAR, NPF and BOPO. Pratiwi (2016) also found that in general the implementation of GCG has a positive impact on company performance, this is in accordance with Elbahar's (2016) research; Junaedi (2015); Nodeh et al. (2016); and Ntim (2013).

Previous study that tested the influence of GCG and fraud has been done, with several indicators of different variables on the GCG variable, it has resulted in different study results. It is interesting to do a study on the influence of GCG on fraud. GCG application is believed to reduce the occurrence of fraud in banks. The study that tested the influence of ICG and fraud has not been found in previous studies, so this is also interesting to do a study about it. The fraud variable in this study is based on the fraud size of Beneish M. Score (1999), using 5 (five) measurement indices consisting of the DSRI, GMI, AQI, SGI, TATA indexes, according to studies by Mavengere (2015), Roxas (2011), Abbas (2017), Christy & Daniel (2018), Tarjo and Herawati (2015), and Repousis (2016). Previous studies on the influence of GCG with Fraud was conducted by Chen and Weibin (2007), showing that the implementation of GCG has an effect on fraud. In a previous study, Chen et al. (2006), also stated that the implementation of GCG reduces the occurrence of fraud. Companies that commit fraud have weaker governance (Weele, 2011).

In this study, the moderating variable was also added, which is a variable that can affect the relationship between the variables in the study, to influence the relationship of variables in research. The moderating variable in this study uses Asset Quality, in the form of study variable indicator Gross NPL (Non-Performing Loan). This is in accordance with Putra's study (2019) who use Non-Performing (NPL) as a proxy for the moderating variable asset quality. Study results of Larasati, et al. (2017) shows that NPL simultaneously affecting significantly on stock prices. This study is in accordance with Nino et al. (2016), where they found that partially NPL has significant effects on share prices. NPLs have a significant influence on bank stock returns (Zakchona, 2019; Ayem, 2017). Meanwhile, the study of Yudha et al. (2017), Hantono (2017), found out that NPL has shown a negative effect toward Return on Assets (ROA).

In this study, the control variables are added ie, Loan to Deposit Ratio (LDR), Capital Adequacy Ratio (CAR) and Leverage (Lev). This is in accordance with the study by Al-Hawary (2011), Weele (2011), Bhatti et al. (2010), Bahreini et al. (2013), and Chen et al. (2006) who used leverage control variables. In Karunia's study (2013), Yolanda (2017), Hantono (2017), CAR has a significant influence on ROA. Meanwhile, Ginting and Tjitradinata (2019) stated that LDR significantly affects the probability of fraud.

The objects used for the study are banks in Indonesia that have gone public, with study data from 2015-2018. The reason for this is because the rules of the authorities
regarding transparency and application of GCG are stricter for banks that have gone public so that the objectives of conducting the study can be achieved. The study period is 2015 to 2018, due to the application of ICG in banking in Indonesia since 2015. In line with this, the objectives and motivation in this study are to conduct tests and to determine the influence that GCG and ICG have toward improving Performance and reducing Fraud in banks. Banks that are members of financial conglomerates by implementing ICG are expected to have better performance. In addition to this, well-implementing GCG and ICG are expected to reduce fraud in banks.

To solve problems in the company, managers carry out financial engineering by hiding company losses and beautifying the appearance of financial performance. Therefore, the demands of stakeholders for the practice of Good Corporate Governance (GCG) and Integrated Corporate Governance (ICG) so that operations are carried out more transparently, it is an interesting topic to study, so that company performance increases and is attractive to investors. Previous study on GCG with several different variable indicators and stock performance and fraud has been done, but it has resulted in different studies.

Self-assessment of governance that is done by the bank sometimes could not reflect the bank performance. In this study, the application of CGC and ICG is anticipated to improve stock performance and financial performance, as well as reduce fraud.

This study has objective to analyze the influence that both GCG and ICG have toward performance using asset quality as a moderating variable. The other objective is analyzing whether GCG and ICG can reduce fraud using asset quality as a moderating variable. The novelty element of this study is that the author develops the measurement of the ICG variable by adding an indicator of assessment measurement from the National Committee on Governance Policy (KNKG, 2004) regarding "Coordination in financial conglomerates". With the coordination within the financial conglomerate, each member in the financial conglomerate will always synergize in business and operations, so as to improve performance, and coordination in compliance and governance, so as to avoid fraud. Coordination is carried out from the process of business strategy, corporate planning, business planning, as well as periodic performance evaluations. In performance evaluation, it is necessary to have an effort/monitoring tool for prevention before fraud (before defect) occurs, for example by providing a transaction report with indications of fraud (anomaly transactions, suspicious transactions, transactions not in accordance with existing rules), performance analysis reports, as further analysis and action, so as to prevent fraud from occurring.

LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

Agency theory regulates the agency association between the principal (the party who owns economic resources) and the agent (management), the party who manages and controls the use of the principal's resources (Jensen and Meckling, 1976). The problem that often arises between the agent and the principal is the information asymmetry of the company. Agents and internal stakeholders have more complete information, while investors, creditors, and stakeholders from outside the company have less information about the company.

With the application of corporate governance, it is hoped that information asymmetry will not occur between management as managers and owners, and other stakeholders. Balance information between agents and other stakeholders will attract
investors and the public to deposit their funds in the bank. Deposits from investors and the public will be managed and distributed in terms of productive assets, such as credit, to improve bank performance.

The application of GCG and ICG, in which there is an element of internal supervision/control, will prevent fraud within the bank. Based on this, it is anticipated that the application of corporate governance will increasing performance and reducing fraud.

Meanwhile, Stakeholder theories, put forward by Freeman (1984), explains the relationship between the parties related to the organization (stakeholders), consisting of inside and outside, so that they affected business activities. Organizations that manage stakeholders effectively will live longer than organizations that don’t take part with their stakeholders. Organizations have to pay attention to the competencies they have and are developed for the progress of the company, as well as ensuring that organizational functions meet stakeholder needs (Freeman, 1984).

On the other hand, Signaling Theory is a signal that a company has that is conveyed to the market (Spence, 1973). One of the signals is the financial information it has. Companies must realize that a bad signal that is being passed on to the market will have a higher cost than the good signal. The function of the manager is to manage the signals that are conveyed which are good signals, to reduce information asymmetry from stakeholders (Oliveira et al., 2008).

Each company has special characteristics so that it can cause differences in information signals and the quality of information between companies. Because there is different information, managers try to provide information signals to investors and other stakeholders. Managers strive to ensure that the signals conveyed are reliable information and are not easily imitated. There are two schemes to relay signals. It is either directly or indirectly. Disclosure in the annual report is one of the ways for the company to send its signal to the stakeholders.

The study model proposed in this study is presented in Figure 1 below.

![Figure 1](image)

**Study Model** The Influence that GCG and ICG has on Performance and Fraud using Asset Quality as a moderating variable.
GCG and Performance

GCG is a business management process and mechanism in line with suitable rules and regulations, which are applied in business ethics and corporate culture. The application of GCG and ICG can encourage and improve company performance as well as economic value for investors and stakeholders as well as healthy competition and a more conducive business climate.

Performance in this study was conducted on the Stock Performance of the company on the assessment of stock performance, and the company's Financial Performance of the bank (Financial Performance). Stock Performance consists of an assessment of Jensen's Alpha, Sharpe Ratio, Reward to Diversification (RDIV), Information Ratio (RI), Tobin's Q, and Financial Performance consisting of an assessment of Return on Equity and Return on Assets.

In accordance with agency theory which is the grand theory in this study, as well as Stakeholder Theory and Signalling Theory as middle range theory and applied research theory, the application of GCG will reduce information asymmetry between principal and agent, so as to improve company performance. In stakeholder theory, organizations that effectively manage stakeholder relationships will last longer than organizations that do not engage in stakeholder relationships. In line with this, with the implementation of GCG, the company in this case is managing the relationship with stakeholders. Likewise, in signalling theory, the implementation of GCG in companies is a good signal that is expected to reduce information asymmetry.

In the Stock Performance assessment, Mulyono et al. (2018) found that GCG and performance have a significant influence on stock prices in Indonesian companies. Research on GCG, Rahmawati & Handayani (2017) and Ulum's (2017) that managerial ownership, board of commissioners, and independent commissioners have a significant positive influence on stock returns/stock prices.

In Elbahar's (2016) study, Corporate Governance in Islamic and conventional banks shows that the capital ratio is positively and significantly related to Return on Assets. In addition, Pratiwi (2016) uses an indicator of the value/quality score of the application of CG on financial performance using the ratio indicators of ROA, ROE, CAR, NPF, NIM, BOPO, and FDR, indicating that the quality of GCG application with 11 assessment indicators has a positive and significant influence on CAR, BOPO, and NPF. In line with this, Junaedi (2015) stated that GCG has a positive influence toward the performance of Islamic Commercial Banks. Nodeh, et al. (2016), board independence and board size have a positive influence on performance. Likewise, Ntim (2013) states that there is a significant positive influence of GCG practice and compliance on performance.

Based on the description above, banks as financial intermediaries, implementing GCG and making them work ethics and culture, in operational activities will always be prudent and under existing regulations. The application of GCG that complies with the regulation will increase the outcome in the form of performance. The application of GCG in banks will improve performance, both stock performance as assessed from stock returns and financial performance from bank performance.

In this regard, the hypotheses in this study are as follows:

H$_{1a}$: GCG has a positive influence on Stock Performance.
H$_{1b}$: GCG has a positive influence on Financial Performance.
GCG and Fraud.

Under the OJK (2019), fraud is an act of deliberately, deceiving, cheating, or manipulating banks, customers, or other parties, using bank facilities and infrastructure, so that the bank, customer, or other party suffers a loss, and the perpetrator gets a profit in financial terms. The application of GCG is expected to reduce fraud in banks.

The application of GCG in companies in accordance with agency theory will reduce information asymmetry between principals and agents, and basically that the organization is managing relationships with stakeholders effectively in order to survive in accordance with stakeholder theory, and the implementation of GCG is a good signal that is expected to reduce asymmetry information in accordance with signalling theory. With the implementation of GCG, it is hoped that it will reduce the occurrence of fraud in banks.

Independence of Board, an element in the assessment of corporate governance, is decreasing the chance and the quantity of fraud to occur (Kaplan & Minton 1994, Beasley, 1996 and Uzun et al., 2004). Similarly Jensen (1993) stated that audit committees can reduce the phenomenon of fraud. The number of CEOs and the amount of CEO's remuneration affects the event and rate of fraud, according to a study by Magnanelli (2010). The reason CEO doing fraud is because there is a motivation to achieve their target because of the level of compensation and stock option from the company (Roell & Peng, 2006; Erickson, et al., 2006).

Indriastuti and Ifada (2011), in their study, found that CG influencing negatively toward fraud. The presence of audit committees was found out to be decreasing the occurrence of fraud, and the occurrence of financial statements fraud decrease along with the number of audit committee meetings infirm increases (D’Onza and Rita, 2011).

In addition to being used as business ethics and bank work culture, in its application, there is an element of adequacy in the bank's internal control system, thereby preventing fraud. The anti-fraud work unit within the bank is formed to prevent, disseminate anti-fraud, and handle fraud in the bank. Based on the description above, the application of GCG in banks will prevent fraud.

In this regard, the hypotheses in this study are as follow:

H2: GCG has a negative influence on fraud.

ICG and Performance

ICG is the implementation of integrated governance with companies in the group that are engaged in finance. Integrated governance that is carried out in financial conglomerates, the structure and process of CG involving members of the conglomerate group, will further strengthen bank performance and produce good governance outcomes.

The application of GCG in companies in accordance with agency theory will reduce information asymmetry between principals and agents, and basically that the organization is managing relationships with stakeholders effectively in order to survive in accordance with stakeholder theory, and the implementation of GCG is a good signal that is expected to reduce asymmetry information in accordance with signaling theory. With the implementation of GCG, it is hoped that it will reduce the occurrence of fraud in banks.

The application of integrated governance in banks in Indonesia has been implemented in financial conglomerates in one group, starting in 2015. In practice, ICG is applied on the principle of Transparency, Accountability, Responsibility,
Independency, and Fairness (TARIF), to promote a sustainable and high competitiveness financial system (OJK, 2014a). Bistrova and Lace (2011), states that corporate governance (CG) is a factor to consider before investing in a company.

The implementation of ICG is basically the implementation of governance in financial conglomerates, while GCG is a governance assessment of individual banks. Previous studies is based on research on GCG and stock performance assessment, namely: Mulyono et al. (2018), Rahmawati & Handayani (2017) and Ulum's (2017) that GCG has a significant positive influence on stock returns/stock prices.

Similarly, in the studies of Elbahar's (2016), Pratiwi (2016), Junaedi (2015), Nodeh, et al. (2016), and Ntim (2013) states that there is a significant positive influence of GCG practice and compliance on performance.

Financial conglomerates, consisting of banks, companies in the insurance and reinsurance sector, companies in the securities sector, and/or finance companies that are in one group. With the integrated implementation of ICG inside the financial conglomerate, the implementation of CG is being done and supervised by the elements of the company's organization in the financial conglomerate. This will make all members of conglomerates and banks in conducting bank operational activities more prudent and compliant with existing regulations so that it will improve performance, both stock performance as assessed from stock performance and financial performance of the bank performance.

In this regard, the hypotheses in this study are as follows:

$$H_{3a}: \text{ICG has a positive influence on Stock Performance.}$$
$$H_{3b}: \text{ICG has a positive influence on Financial Performance.}$$

**ICG and Fraud**

The application of GCG in companies in accordance with agency theory will reduce information asymmetry between principals and agents, and basically that the organization is managing relationships with stakeholders effectively in order to survive in accordance with stakeholder theory, and the implementation of GCG is a good signal that is expected to reduce asymmetry information in accordance with signaling theory. With the implementation of GCG, it is hoped that it will reduce the occurrence of fraud in banks.

ICG consists of a structure of collaborative relationships (joint) between government agencies, or government, and/or the non-government sector. Institute of Public Administration Australia (2002) stated that ICG conducts continuous oversight, and focuses on organizational relationships within the financial conglomerate and within the organization itself because it is hoped that a reciprocal relationship will increase the expertise to oversee the results and minimize the risks in the cooperation. ICG is being applied and ran in an integrated manner, this is a refinement in organizational management and an improvement in the present governance system (Dwyer, 2002; Menadue, 2003; Podger, 2006).

The implementation of ICG will make banks more prudent in carrying out their business activities because members of the financial conglomerate group will supervise and monitor the application of CG. This, in addition to making all conglomerate members and banks in doing bank operational activities more prudent and compliant with existing regulations. It will also prevent irregularities that lead to fraud, which will harm the bank. In this regard, the hypotheses in this study are as follows:
H4: ICG has a negative influence on fraud.

**Asset Quality and Performance**

Asset Quality is a moderating variable with the study indicator of Non-Performing Loan-Gross (NPL_Gross), namely Credit with the collectability of 3,4,5 divided by Total Credit. Asset quality variable as a moderating variable previously carried out by Putra (2019), using a study proxy of Non-Performing Loan (NPL).

In a previous study, asset quality is significant on stock returns, according to a previous study conducted by Larasati et al. (2017), Nino et al. (2016), Zakchona (2019), and Ayem (2017). Meanwhile, in the study of Yudha et al. (2017), asset quality has a significant influence on Return on Assets (ROA), in line with the study conducted by Hantono (2017).

GCG which is applied in all organizational lines and also ICG which is also applied in all members of the conglomerate will further improve the CG outcome in the form of performance. Information on the application of CG will become a consideration for investors in doing business with banks. Based on this, asset quality is expected to strengthen the influence that GCG and ICG have toward performance, both in Stock Performance and Financial Performance.

In this regard, the hypotheses in this study are as follows:

H5a: Asset Quality strengthens the influence of GCG on Stock Performance
H5b: Asset Quality strengthens the influence of GCG on Financial Performance
H6a: Asset Quality strengthens the influence of ICG on Stock Performance
H6b: Asset Quality strengthens the influence of ICG on Financial Performance

**Asset Quality and Fraud.**

Asset quality with the Non-Performing Loan as a variable indicator reflects the magnitude of the potential loss that will be experienced by the bank from productive assets distributed to the public in the form of credit. Non-Performing Loans can be an indication of fraud, if the initial credit initiation, processing and administration, and credit monitoring are not following existing regulations. With the existence of a Non-Performing Loan, the bank must make provision for losses to cover potential losses that the bank will experience.

In line with Financial Services Authority of Indonesia (OJK) regulations, GCG is applied to banks, while ICG is applied to banks and financial conglomerates in one group. With this, it is expected to reduce the occurrence of fraud. Based on the description above, asset quality is expected to strengthen the influence that GCG and also ICG have toward fraud.

In this regard, the hypotheses in this study are as follows:

H7: Asset Quality strengthens the influence of GCG on Fraud.
H8: Asset Quality strengthens the influence of ICG on Fraud.

**RESEARCH METHOD**

The data in this study are from the period of 2015 until 2018 to assess the influence of GCG on Performance and Fraud in banks, and to measure the influence of ICG on Performance and Fraud in banks. After banks implement GCG and ICG, it is anticipated that bank performance will be increased and fraud will be decreased. The reason for the study period from 2015 to 2018, is that the integrated application of ICG inside banks in
Indonesia is implemented in a new financial conglomerate starting in 2015 in line with Article 58 Financial Services Authority of Indonesia (OJK) No.18 of 2014.

The population of this study is commercial banks in Indonesia. The number of commercial banks in Indonesia as of December 2018 was 115 banks. The sample in this study is a go public bank in Indonesia. The data in this study were purposive sampling data on the period of 2015-2018. From the total population of banks in Indonesia as of December a total of 115 banks, according to the study objectives, the sample in this study were banks that had gone public by selling their shares in the stock exchanges, a total of 43 banks. The reason for taking the sample using a bank that has gone public is that a bank that has gone public is more transparent in disclosing information in the financial report / annual report. In this study, GCG and ICG testing were carried out on Performance and Fraud. The study period is from 2015 to 2018. The study period began in 2015 because the application of ICG in Indonesia only started in 2015. ICG was applied to banks in financial conglomerates. The number of banks that have been gone public and have financial conglomerates in the 2015 period until 2018 were 27 banks.

<table>
<thead>
<tr>
<th>Sample Selection Criteria</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Go Public Banks until the end of 2018</td>
<td>43</td>
</tr>
<tr>
<td>Less:</td>
<td></td>
</tr>
<tr>
<td>• Go Public in 2016 (past the initial period of research)</td>
<td>2</td>
</tr>
<tr>
<td>• Does not have an associated entity</td>
<td>14</td>
</tr>
<tr>
<td>Number of Banks in Research</td>
<td>27</td>
</tr>
</tbody>
</table>

Source: OJK- Indonesian Banking Statistics - December 2018

This study uses secondary data from the annual report and also financial report that has been published by the banks, and/or the data that available in each bank website. In the GCG and ICG assessment, data were obtained from the annual report from the stock exchange website (idx.co.id) and the bank website in the sample that was included in the study criteria. Data on SBI interest rates are obtained from the Bank Indonesia website (bi.go.id). Data regarding share prices are obtained from Reuters and the website https://finance.yahoo.com/.

The independent variable performance measurement scale consisting of stock performance and financial performance as well as fraud is a ratio. Measurement of stock performance is:

1) **Jensen’s Alpha:**

\[
\alpha_p = (TR_P - R_{BR}) - \beta_p (R_M - R_{BR}) 
\]

where:

- \(\alpha_p\) = *Jensen’s Alpha*
- \(TR_P\) = the average return of the total portfolio in a certain period
- \(R_{BR}\) = the average risk-free asset return in a certain period
- \(R_M\) = the average market return in a certain period
Do Good Corporate Governance (GCG) And Integrated Corporate Governance (ICG) Improve Performance And Reduce Fraud In Indonesian Public Banking?

\[ \beta_p = \text{volatility as measured by portfolio beta in a certain period} \]
\[ \frac{\overline{TR_p} - \overline{R_{BR}}}{\overline{R_{M}} - \overline{R_{BR}}} = \text{average portfolio risk premium, portfolio excess return} \]
\[ \frac{\overline{TR_p} - \overline{R_{BR}}}{\overline{R_{BR}}} = \text{average market risk premium} \]

2) **Rasio Sharpe:**
\[ RVAR = \frac{\frac{\overline{TR_p} - \overline{R_{BR}}}{\sigma_p}}{\frac{\overline{TR_p} - \overline{R_{BR}}}{\overline{R_{BR}}}} \]
where:
\[ RVAR = \text{Reward to Variability or Sharpe Ratio} \]
\[ \overline{TR_p} = \text{the average return of the total portfolio in a certain period} \]
\[ \overline{R_{BR}} = \text{the average risk-free asset return in a certain period} \]
\[ \sigma_p = \text{variability as measured by the standard deviation of the portfolio return in a certain period} \]
\[ \frac{\overline{TR_p} - \overline{R_{BR}}}{\overline{R_{BR}}} = \text{average portfolio risk premium, portfolio excess return} \]

3) **Rasio Treynor:**
\[ RVOL = \frac{\frac{\overline{TR_p} - \overline{R_{BR}}}{\beta_p}}{\frac{\overline{TR_p} - \overline{R_{BR}}}{\overline{R_{BR}}}} \]
where:
\[ RVOL = \text{reward to volatility or Treynor metric} \]
\[ \overline{TR_p} = \text{the average return of the total portfolio in a certain period} \]
\[ \overline{R_{BR}} = \text{the average risk-free asset return in a certain period} \]
\[ \beta_p = \text{volatility as measured by portfolio beta in a certain period} \]
\[ \frac{\overline{TR_p} - \overline{R_{BR}}}{\overline{R_{BR}}} = \text{portfolio excess return} \]

4) **RDIV (Reward to Diversification):**
\[ RDIV = \frac{\frac{\overline{TR_p} - \overline{R_{BR}}}{\sigma_p}}{\frac{\overline{TR_p} - \overline{R_{BR}}}{\sigma_p - \beta_p \sigma_M}} \]
where:
\[ RDIV = \text{Reward to Diversification} \]
\[ \overline{TR_p} = \text{the average return of the total portfolio in a certain period} \]
\[ \overline{R_{BR}} = \text{the average risk-free asset return in a certain period} \]
\[ \sigma_p = \text{variability as measured by the standard deviation of the portfolio return in a certain period} \]
\[ \beta_p = \text{volatility as measured by portfolio beta in a certain period} \]
\[ \sigma_M = \text{variability as measured by the standard deviation of the systemic risk of portfolio returns in a certain period} \]
\[ \beta_p \sigma_M = \text{market risk (systematic risk) of the portfolio in case of full diversification within a certain period} \]
\[ \sigma_P - \beta_P \sigma_M = \text{risk that the portfolio cannot diversify} \]
\[ \frac{\text{TR}_P - \text{R}_{BR}}{\text{TR}_P - \text{R}_{BR}} = \text{average portfolio risk premium} \]

5) **RI (Information Ratio):**

\[
\text{RI} = \frac{\alpha_P}{\sigma_{ep}} \quad \cdots \cdots \cdots \cdots \cdots \quad (5)
\]

where:
- **RI** = *Information Ratio*
- **\( \alpha_P \)** = *alpha portfolio = Jensen’s Alpha*
- **\( \sigma_{ep} \)** = *portfolio unique risk (\( \overline{\text{TR}_P - \overline{\text{R}_{BR}} } \))*

6) **Pe_M2 (M2 Measurement):**

\[
\text{Pe}_M2 = \left( \frac{\text{TR}_P - \overline{\text{R}_{BR}}}{\sigma_P} \right) \frac{\sigma_M}{\overline{\text{R}_{BR}}} + \frac{\text{R}_{BR} - \overline{\text{R}}_M}{\overline{\text{TR}_P - \overline{\text{R}_{BR}}}} \quad \cdots \cdots \cdots \cdots \cdots \quad (6)
\]

where:
- **Pe_M2** = *M2 Measurement*
- **\( \overline{\text{TR}_P} \)** = *the average return of the total portfolio in a certain period*
- **\( \overline{\text{R}_{BR}} \)** = *the average risk-free asset return in a certain period*
- **\( \overline{\text{R}}_M \)** = *the average market return in a certain period*
- **\( \sigma_M \)** = *variability as measured by the standard deviation of the systemic risk of portfolio returns in a certain period*
- **\( \sigma_P \)** = *variability as measured by the standard deviation of the portfolio return in a certain period*
- **\( \overline{\text{TR}_P - \overline{\text{R}_{BR}} } \)** = *average portfolio risk premium*

7) **Tobin’s Q:**

\[
\text{Tobin’s Q1} = \frac{\text{TMV} + \text{TBVL}}{\text{TBVA}} \quad \cdots \cdots \cdots \cdots \cdots \quad (7)
\]

where:
- **Tobin’s Q1** = *Tobin’s Q ratio*
- **TMV** = *Total Market Value*
- **TBVL** = *Total Book Value Liabilities*
- **TBVA** = *Total Book Value of Asset*

While the measurement of performance in financial performance is:

1) **Operating Expenses to Operating Income (BOPO):**

\[
\text{BOPO} = \frac{BO}{PO} \quad \cdots \cdots \cdots \cdots \cdots \quad (8)
\]

where:
- **BOPO** = *Ratio of Operating Expenses to Operating Income*
- **BO** = *Operating Expenses in the research year (t)*
- **PO** = *Operating Income in the research year (t)*

2) **Return on Asset (ROA):**
Do Good Corporate Governance (GCG) And Integrated Corporate Governance (ICG) Improve Performance And Reduce Fraud In Indonesian Public Banking?

\[
\text{ROA} = \frac{\text{PBT}}{\text{Average of Total Asset}} \quad \text{……………… (9)}
\]

where:
- \(\text{ROA}\) = Return on Asset ratio
- \(\text{PBT}\) = Profit Before Tax
- Average of Total Asset = \((\text{Total Asset}_{t-1} + \text{Total Asset}_t) / 2\)

3) \textbf{Return on Equity (ROE)}:

\[
\text{ROE} = \frac{\text{PAT}}{\text{Equity}} \quad \text{……………… (10)}
\]

where:
- \(\text{ROE}\) = Return on Equity ratio
- \(\text{PAT}\) = Profit After Tax
- Equity = Bank Capital or equity

4) \textbf{Net Interest Margin (NIM)}:

\[
\text{NIM} = \frac{\text{Net interest income}}{\text{Average of Total Asset}} \quad \text{……………… (11)}
\]

where:
- \(\text{NIM}\) = Net Interest Margin ratio
- Net interest income = Interest Income - Interest Expense
- Average of Total Asset = \((\text{Total Asset}_t + \text{Total Asset}_{t-1}) / 2\)

The measurement of the fraud variable in this study is using the fraud measure from Beneish M. Score (1999), using 5 (five) measurement indices consisting of the DSRI, GMI, AQI, SGI, TATA indexes, according to research by Mavengere (2015), Roxas (2011), Abbas (2017), Christy & Daniel (2018), Tarjo and Herawati (2015), and Repousis (2016) namely:

\[
\text{M-Score}_5 = 0.920*\text{DSRI} + 0.528*\text{GMI} + 0.404*\text{AQI} + 0.892*\text{SGI} + 4.679*\text{TATA} \quad \text{……………… (12)}
\]

where:
- \(\text{DSRI}\) = \((\text{Loan}_t / \text{Interest Income}_t) / (\text{Loan}_{t-1} / \text{Interest Income}_{t-1})\)
  In this study, because the object of research is the bank, receivables are changed to credit/financing provided, and sales are changed to interest income.
  DSRI Ratio \((\text{Days Sales in Receivable Index})\) to find out the distortion of receivables/loans given due to income inflation.
- \(\text{GMI}\) = \(\frac{\text{Gross Margin}_{t-1}}{\text{Gross Margin}_t}\)
  \(\text{Gross Margin} = (1 - \text{interest expense}) / \text{interest income}\)
  In this study, because the object of research is the bank, the Cost of Goods Sold is changed to interest expense, and sales is changed to interest income.
  GMI Ratio \((\text{Gross Margin Index})\) to find out that deteriorating profit margin conditions will influence companies to manipulate earnings.
- \(\text{AQI}\) = \([1-(\text{PPE}_t+\text{CA}_t)/\text{TA}_t] / [1-(\text{PPE}_{t-1}+\text{CA}_{t-1})/\text{TA}_{t-1}]\),
PPE = *Property, Plant, and Equipment-net*, CA = *Current Assets*, TA = *Total Assets*.

AQI (Asset Quality Index) ratio to find out distortions in other assets that can result in excessive capitalization of expenditure.

\[
SGI = \frac{\text{Interest Income}_t}{\text{Interest Income}_{t-1}}
\]

In this study, because the object of research is the bank, sales are changed to interest income.

SGI (Sales Growth Index) ratio to determine growth and capital requirements that affect company growth to compare sales (interest income) and income.

\[
TATA = \frac{(\text{Income Before Extraordinary Items} - \text{Cash from Operations})}{\text{Total Assets}_t}
\]

TATA (Total Accruals to Total Assets), is to check whether accounting profits have been supported by profits in cash, from the cash flow statement.

The measurement scale for the dependent variable GCG and ICG is ordinal/rank, GCG is measured against individual banks, while ICG is measured against banks as a financial conglomerate. Measurement of GCG and ICG is by conducting content analysis of the bank's annual report with a value of 1-5, on the assessment points in GCG as many as 196 assessment items as much as according to the table below:

<table>
<thead>
<tr>
<th>No</th>
<th>Rating Factor</th>
<th>Number of Assessment Items</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Implementation of the duties and responsibilities of the Board of Commissioners</td>
<td>37</td>
</tr>
<tr>
<td>2</td>
<td>Implementation of the duties and responsibilities of the Board of Directors</td>
<td>40</td>
</tr>
<tr>
<td>3</td>
<td>Completeness and implementation of the Committee's duties</td>
<td>19</td>
</tr>
<tr>
<td>4</td>
<td>Handling conflicts of interest</td>
<td>6</td>
</tr>
<tr>
<td>5</td>
<td>Implementation of compliance function</td>
<td>11</td>
</tr>
<tr>
<td>6</td>
<td>Implementation of the internal audit function</td>
<td>19</td>
</tr>
<tr>
<td>7</td>
<td>Implementation of the external audit function</td>
<td>15</td>
</tr>
<tr>
<td>8</td>
<td>Implementation of risk management including internal control system</td>
<td>8</td>
</tr>
<tr>
<td>9</td>
<td>Provision of funds to related parties and large exposures</td>
<td>6</td>
</tr>
<tr>
<td>10</td>
<td>Transparency of the Bank's financial and non-financial conditions, GCG</td>
<td>18</td>
</tr>
<tr>
<td></td>
<td>implementation reports and internal reporting</td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>Bank strategic plan</td>
<td>17</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>196</td>
</tr>
</tbody>
</table>

Assessment points in ICG as many as 49 assessment items as much as according to the table below:
Do Good Corporate Governance (GCG) And Integrated Corporate Governance (ICG) Improve Performance And Reduce Fraud In Indonesian Public Banking?

### Table 3
ICG Assessment Factors and Number of Assessment Items

<table>
<thead>
<tr>
<th>No</th>
<th>Rating Factor</th>
<th>Number of Assessment Items</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Implementation of duties and responsibilities of the Main Entity Board of Directors</td>
<td>8</td>
</tr>
<tr>
<td>2</td>
<td>Implementation of duties and responsibilities of the Main Entity Board of Commissioners</td>
<td>9</td>
</tr>
<tr>
<td>3</td>
<td>Duties and responsibilities of the Integrated Governance Committee</td>
<td>7</td>
</tr>
<tr>
<td>4</td>
<td>Duties and responsibilities of the Integrated Compliance Unit</td>
<td>4</td>
</tr>
<tr>
<td>5</td>
<td>Duties and responsibilities of the Integrated Internal Audit Unit</td>
<td>6</td>
</tr>
<tr>
<td>6</td>
<td>Implementation of Integrated Risk Management</td>
<td>5</td>
</tr>
<tr>
<td>7</td>
<td>Formulation and implementation of Integrated Governance Guidelines</td>
<td>5</td>
</tr>
<tr>
<td>8</td>
<td>Coordination in financial conglomerates</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>49</strong></td>
</tr>
</tbody>
</table>

### RESULT AND DISCUSSION

**Variable Measurement Model**

The output of path diagram from of the latent variables construct test in this study is being shown in Figure 2 below.

![Figure 2](image-url)

**Figure 2**
Model Measurement (Inner Model)
The main test results of the influence that GCG and ICG have toward Performance and Fraud with Asset Quality as the moderating variable can be seen in Table 4 below.

### Table 4

<table>
<thead>
<tr>
<th>Hypotheses</th>
<th>Original Sample (O)</th>
<th>T-Statistics / t-value</th>
<th>Results</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>H1a</strong> The Influence of GCG on Stock Performance.</td>
<td>0.229</td>
<td>1.689**</td>
<td>Significant</td>
</tr>
<tr>
<td><strong>H1b</strong> The Influence of GCG on Financial Performance.</td>
<td>0.363</td>
<td>5.330***</td>
<td>Significant</td>
</tr>
<tr>
<td><strong>H2</strong> The Influence of GCG on Fraud.</td>
<td>-0.185</td>
<td>1.831*</td>
<td>Significant</td>
</tr>
<tr>
<td><strong>H3a</strong> The Influence of ICG on Stock Performance.</td>
<td>0.240</td>
<td>2.473**</td>
<td>Significant</td>
</tr>
<tr>
<td><strong>H3b</strong> The Influence of ICG on Financial Performance.</td>
<td>0.089</td>
<td>1.250</td>
<td>Not significant</td>
</tr>
<tr>
<td><strong>H4</strong> The Influence of ICG on Fraud.</td>
<td>0.121</td>
<td>1.714</td>
<td>Not significant</td>
</tr>
<tr>
<td><strong>H5a</strong> Asset Quality strengthens the influence of GCG on Stock Performance.</td>
<td>-0.046</td>
<td>0.336</td>
<td>Not significant</td>
</tr>
<tr>
<td><strong>H5b</strong> Asset Quality strengthens the influence of GCG on Financial Performance.</td>
<td>0.354</td>
<td>2.325**</td>
<td>Significant</td>
</tr>
<tr>
<td><strong>H6a</strong> Asset Quality strengthens the influence of ICG on Stock Performance.</td>
<td>-0.037</td>
<td>0.265</td>
<td>Not significant</td>
</tr>
<tr>
<td><strong>H6b</strong> Asset Quality strengthens the influence of ICG on Financial Performance.</td>
<td>0.397</td>
<td>2.539**</td>
<td>Significant</td>
</tr>
<tr>
<td><strong>H7</strong> Asset Quality strengthens the influence of GCG on Fraud.</td>
<td>0.216</td>
<td>1.824*</td>
<td>Significant</td>
</tr>
<tr>
<td><strong>H8</strong> Asset Quality strengthens the influence of ICG on Fraud.</td>
<td>0.123</td>
<td>0.740</td>
<td>Not significant</td>
</tr>
<tr>
<td><strong>Ctrl Lev -&gt; Perf_Ex</strong></td>
<td>-0.331</td>
<td>3.063***</td>
<td>Significant</td>
</tr>
<tr>
<td><strong>Ctrl CAR -&gt; Perf_Int</strong></td>
<td>0.154</td>
<td>2.005**</td>
<td>Significant</td>
</tr>
<tr>
<td><strong>Ctrl LDR -&gt; Fraud</strong></td>
<td>0.456</td>
<td>3.950**</td>
<td>Significant</td>
</tr>
</tbody>
</table>

*Significant on level of 0.1, **Significant on level of 0.05, ***Significant on level of 0.01.

### Sensitivity Measurement

In sensitivity testing, Stock Performance is being measured using the variable indicators Pe-M2 (M2 Measurement), RDIV (*Reward to Diversification*), RI (Information Ratio), and Tobin’s Q, while financial performance is measured using the variable indicators NIM, ROA and ROE.

### Table 5

<table>
<thead>
<tr>
<th>Hypotheses</th>
<th>Original Sample (O)</th>
<th>T-Statistics / t-value</th>
<th>Results</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>H1a</strong> The Influence of GCG on Stock Performance.</td>
<td>0.256</td>
<td>1.677*</td>
<td>Significant</td>
</tr>
<tr>
<td><strong>H1b</strong> The Influence of GCG on Financial Performance.</td>
<td>0.500</td>
<td>8.046***</td>
<td>Significant</td>
</tr>
<tr>
<td><strong>H2</strong> The Influence of GCG on Fraud.</td>
<td>-0.168</td>
<td>1.774*</td>
<td>Significant</td>
</tr>
<tr>
<td><strong>H3a</strong> The Influence of ICG on Stock Performance.</td>
<td>0.261</td>
<td>2.861***</td>
<td>Significant</td>
</tr>
<tr>
<td><strong>H3b</strong> The Influence of ICG on Financial Performance.</td>
<td>0.147</td>
<td>2.173***</td>
<td>Significant</td>
</tr>
<tr>
<td><strong>H4</strong> The Influence of ICG on Fraud.</td>
<td>0.132</td>
<td>1.890</td>
<td>Not Significant</td>
</tr>
<tr>
<td><strong>H5a</strong> Asset Quality strengthens the influence of GCG on Stock Performance.</td>
<td>-0.086</td>
<td>0.675</td>
<td>Not significant</td>
</tr>
<tr>
<td><strong>H5b</strong> Asset Quality strengthens the influence of GCG on Financial Performance.</td>
<td>0.239</td>
<td>1.546</td>
<td>Not significant</td>
</tr>
</tbody>
</table>
Do Good Corporate Governance (GCG) And Integrated Corporate Governance (ICG) Improve Performance And Reduce Fraud In Indonesian Public Banking?

Discussion

GCG and ICG Can Improve Performance.

The results show that GCG and ICG positively influence Stock Performance. And, GCG has a significant positive influence on Financial Performance. This proved that the application of GCG produces results in line with stakeholder expectations, and is attractive for investors to invest in banks so that stock performance will increase. Application of GCG in all lines of the organization, which consists of a complete structure and process for implementing GCG, will result in good financial performance. This indicates that investors investing in stocks will analyze in terms of ownership and groups owned by the bank. The better application of ICG in financial conglomerates will increase stock performance. Application of ICG in financial conglomerates, coordination, and synergy of financial conglomerates has been carried out significantly to improves financial performance.

The result of this study is similar to the previous study by Bistrova & Lace (2011) which stated that a company with a good CG quality can offer a lower risk. Similarly, Mulyono, et. al., (2018) in his study about the companies in Indonesia stated that corporate governance and company performance affect stock prices significantly. CG indicators consisting of board of directors, independent commissioners, and managerial ownership have a positive and significant effect on stock prices (Rahmawati & Handayani, 2017), which is in accordance to a study by Ulum (2012) which shows that GCG affects stock prices. Elbahar (2016) stated that Board Size is significant and positive towards performance, and other research on GCG and Performance conducted by Pratiwi (2016), Junaedi (2015), Nodeh et al. (2016), and Ntim (2013).

In this study ICG does not influence Financial Performance, but in sensitivity analysis ICG has a significant positive influence on Financial Performance. The measurement of the Financial Performance variable in the main test uses ROA and ROE, while it uses NIM, ROA, and ROE proxies in the sensitivity test. In this case, the bank has to maintain the level of ROA and ROE which is a return to assets and equity as large as possible, so that the Financial Performance can be maintained and appealing to the investors.

This study shows that agency theory is very important in the application of GCG and ICG so as to minimize information asymmetry between managers and shareholders, investors and other stakeholders. Stakeholder theory describes the relationship between the organization, the internal and external environment, so that they influence each
other's business activities. Likewise, in signaling theory, positive signals conveyed by banks through annual reports and other media are very important for investors to do business with banks.

**GCG, ICG can reduce the occurrence of fraud.**

In this study, GCG has a significant negative influence on fraud. This proves that the application of GCG in all lines of the organization has been implemented properly, so as to reduce the occurrence of fraud. This also reflects that the compliance, internal audit, and external audit functions in the application of GCG have been implemented properly.

This result is similar to the previous study which stated that in state-owned company, the proportion of the independent director has a negative effect on fraud. This is similar to the other previous study done by Chen et al. (2006), and Weele (2011), which suggested that a good implementation of GCG will lower fraud.

On the other side, ICG does not influence fraud. This means that coordination and synergy in financial conglomerates have not been carried out effectively. Fraud incidents will be disclosed and become a concern in the financial conglomerate, if the fraud affects the financial conglomerate as a whole, so that the supervisory function within the financial conglomerate and in each member is still less effective and efficient. Suggestion for this is, that the coordination and synergy in the supervision/control of fraud by the Integrated Compliance Unit, the Integrated Internal Audit Work Unit within the financial conglomerate have not been running significantly and efficiently. In addition to the establishment of an anti-fraud work unit at banks, the application of ICG needs to be improved and mitigating risk with preventive (ex-ante) and curative (ex-post) efforts in terms of coordination within financial conglomerates, to prevent fraud.

This result is similar to the previous study done by Chen, et al. (2006) which showed that the proportion of directors, the size of the board of directors, and the duality of CEO and auditor are not significant for Fraud. However, contradicted to Chen, et al (2006) study, in stated owned companies, the proportion of the independent director affects Fraud negatively.

The results of the study are in accordance with agency theory, stakeholder theory, and signaling theory that the implementation of GCG in banks can minimize information asymmetry between managers and shareholders, investors and other stakeholders, as well as describe the relationship between the organization, the internal and external environment, and this is a positive signal to stakeholders, so as to reduce fraud. However, in the implementation of ICG, it is necessary to carry out more effective coordination and synergy by coordinating between members of the financial conglomerate, so as to prevent fraud.

**Asset Quality Variable Strengthen the Influence that GCG and ICG has Toward Performance.**

Asset Quality strengthens the influence that GCG has toward Financial Performance. Likewise, Asset Quality strengthens the influence that Integrated Corporate Governance has on Financial Performance. For management, the formulation of loss provision by banks is still within the normal limits that are maintained, so that they still provide good financial performance for the bank. This causes the Asset Quality moderation as the variable with Gross NPL as study indicators to strengthen the influence of GCG on Financial Performance. The formulation of the loss provision by the bank is still within the maintained limits of reasonableness, to provide good financial
Do Good Corporate Governance (GCG) And Integrated Corporate Governance (ICG) Improve Performance And Reduce Fraud In Indonesian Public Banking?

performance for the bank. This is shown by Gross NPL that become the link of the Asset Quality as a moderation variable.

This result of study is in accordance with the previous research done by Yudha, et al (2017) which suggested that NPL significantly affects Financial Performance. Asset Quality does not strengthen the influence of GCG on Stock Performance. Likewise, Asset Quality does not strengthen the influence of ICG on Stock Performance.

This is because there are still banks that have poor Asset Quality, with a Gross NPL level above 5%. To maintain a maximum Net NPL of 5%, the bank must establish a loss provision in the form of expenses, which can affect the bank's performance (profit and loss). Investors pay attention to NPL information in investing in stocks so that Asset Quality is not able to strengthen the influence of GCG on Stock Performance. This illustrates that information about high NPLs in banks becomes the attention of investors in investing in stocks, causing investors to hold their investments in banks so that Asset Quality is unable to strengthen the influence that GCG has toward Stock Performance.

Suggestion, Bank should maintain NPL level as low as possible under 5% by establishing provision for impairment losses/allowance for impairment loss. Bank should also maintain its performance, so that the bank’s performance level can stay appealing to the investors.

This result is in accordance with the previous study by Zakchona (2019) which suggested that NPL does not have a significant effect on stock prices. However, the result of this study is contradicted to the other previous study where NPL affects the stock prices significantly (Larasati et al., 2017; Nino et al., 2016; Yudha et al., 2017; and Ayem, 2017).

In sensitivity analysis, Asset Quality does not strengthen the influence of GCG on Financial Performance. In this case, bank should always maintain NPL as well as its performance, so that the bank’s performance level can keep on appealing to the investors.

**Asset Quality Variable Strengthen the Influence that GCG and ICG on Fraud.**

Asset Quality strengthens the influence of GCG on Fraud. This proves that the Asset Quality as a moderating variable with the Gross NPL as a study indicator can strengthen the influence of GCG on fraud. The formation of loss provision, which is carried out by banks to keep NPLs still within the maintained normal limits, can provide good financial performance for banks so that Asset Quality can strengthen the influence of GCG on fraud.

This result is similar with the previous study done by Ginting and Christiana (2019) which suggested that NPL significantly affecting Fraud probability. On the other side, Asset Quality does not strengthen the influence of Integrated Corporate Governance on Fraud. In this study, ICG does not influence fraud, so that Asset Quality with NPL assessment indicators is not able to strengthen the influence of ICG on fraud. This also shows that there is a need to improve coordination within financial conglomerates, to prevent fraud.

Suggestion, Bank should maintain NPL level as low as possible under 5% by establishing provision for impairment losses/allowance for impairment loss. So that the occurrence of fraud can be prevented. Bank also needs to mitigating risk with preventive (ex-ante) and curative (ex-post) efforts in terms of coordination within financial conglomerates, to prevent fraud.

This result is similar with the previous study done by Ginting and Christiana (2019) which suggested that NPL significantly affecting Fraud probability. Based on the test
results in the study, all independent variables of GCG and ICG influence the dependent variable, Performance, which consists of Stock Performance and Financial Performance and the dependent variable fraud. Asset Quality as a moderating variable can strengthen the influence that GCG has toward Financial Performance and Fraud, as well as being able to strengthen the influence of ICG on Financial Performance.

Assessment of GCG and ICG in the study is based on content analysis of disclosures in the bank's annual report. If there are weaknesses and limitations in the annual report, the assessment can be "biased", and it can affect the results of the study.

Sensitivity testing is carried out by the Performance variable which consists of Stock Performance which consists of the M2 Measurement Test (Pe_M2), Reward to Diversification (RDIV), Information Ratio (RI), and Tobins_Q, as well as Financial Performance which consists of Measurement Test for Operating Costs on Operating Income (BOPO), Return on Assets (ROA), and Return on Equity (ROE), show that GCG has a positive influence on Stock Performance and Financial Performance, and influencing negatively toward fraud. ICG influencing positively toward Stock Performance and Financial Performance. The moderating variable Asset Quality * GCG strengthens the influence that GCG has toward fraud, and the moderating variable Asset_Quality * ICG strengthens the influence that ICG has toward Financial Performance. The control variable Leverage (Lev) influencing negatively toward Stock Performance, the Capital Adequacy Ratio (CAR) influencing positively toward Financial Performance, and the Loan to Deposit Ratio (LDR) influencing positively toward Fraud. The results of the sensitivity testing strengthen the main test results in this study.

CONCLUSION, LIMITATION AND IMPLICATION

Conclusion

Based on the results of hypothesis tests, it is concluded that (1) GCG has a positive significant effect to stock performance, (2) GCG has a positive significant effect to financial performance, (3) GCG has a negative significant effect to fraud, (4) ICG has a positive significant effect to stock performance, (5) ICG has not significant effect to financial performance, but in sensitivity analysis ICG has a positive significant effect to stock performance, (6) ICG has not significant effect to fraud, (7) Asset Quality does not strengthen the influence of GCG on External Performance, (8) Asset Quality strengthens the influence of GCG on Internal Performance, (9) Asset Quality does not strengthen the influence of Integrated Corporate Governance on External Performance (10) Asset Quality strengthens the influence of ICG on Internal Performance, (11) Asset Quality strengthens the influence of GCG on Fraud, (12) Asset Quality does not strengthen the influence of ICG on Fraud.

Limitation

Due to the limitation in the scope of this study, the conclusions that are being generated will be limited following the limitation of this study. The limitation of this research is that the assessment of GCG and ICG with content analysis of the disclosures in the bank's annual report. If there are weaknesses and limitations of disclosure in the annual report, then the GCG and ICG assessments can be "biased", and can affect the research results.
Implication for Future Research

The implications of this research in the managerial practice of bank managers, this study provides evidence that the importance of implementing GCG and ICG. The implementation of GCG and ICG will improve stock performance and financial performance. With clearer and more transparent disclosures regarding the implementation of GCG and ICG, performance will increase. While for shareholders, investors and other stakeholders are that a bank with good GCG and ICG implementation and known by investors and other stakeholders, then they will be interested in doing business properly. Likewise, GCG reduces the occurrence of fraud in banks. In this study, ICG has no effect on fraud, it shows that it is necessary to improve coordination and synergy in financial conglomerates, so that in terms of supervision, it can be carried out effectively and efficiently in financial conglomerates, so as to prevent fraud in banks.

Therefore, it hoped that in the next study, the use of an extended study sample and the study periods can be used to all the banks that existed in Indonesia with a wider span of years, or can also be compared with the banks in another country. For the next study, the formula of assessing GCG and ICG can be obtained by interviewing or having a questionnaire to assess the application of GCG and ICG that exist in the banks. Likewise, the recommendation regarding the variables that are being used in further study, for example, are macroeconomic variables and application of bank social functions, so that the study output can provide wider and better results.

REFERENCES


Do Good Corporate Governance (GCG) And Integrated Corporate Governance (ICG) Improve Performance And Reduce Fraud In Indonesian Public Banking?


115


