

# The Effect of Corporate Ethics Considerations, Corporate Governance Practices, and Corporate Governance Mechanism to Organizational Performance (A Study of Banking in Jakarta)

Asri Laksmi Riani

Faculty of Economy and Business UNS Surakarta,  
Jl. Ir. Sutami 36A Kentingan Surakarta 57126  
Email: asrilaksmiriani@yahoo.com

**Abstract** – Bank as an institution which serves financial needs of the public must be able to serve with good corporate governance, to both the stakeholder and the shareholder, in order that it can produce high performance. The problems in this study are: 1). Is there any direct influence of corporate ethics consideration on the organization performance? 2). Is there any influence of corporate ethics consideration on the organization performance through, a). Corporate Governance practices and b). Corporate Governance mechanisms?

The aims of the study are: 1). To identify and interpret the analysis result of corporate ethics consideration and its influence on the organization performance; 2). To identify and interpret the analysis result of corporate ethics consideration and its influence on the organization performance through Corporate Governance practices and mechanisms.

This study is done on banking in DKI Jakarta by census and the data population is the managers in each observed bank. From 142 banks, 112 respondents provided the data which were ready to be analyzed.

The main instrument used in the data collection is the questionnaires. The collected data were analyzed using SEM analysis, AMOS program, version 4.01. Prior to the analysis several test were applied: validity test, reliability test, and exploratory factor analysis. The result of the test met the required criteria.

The results of this study are: 1). There is a significance influence of corporate ethics consideration on organization performance. 2). There is a significance of corporate ethics consideration on organization performance through: a). Corporate Governance practices and b). Corporate Governance mechanisms.

**Keywords** – Company Ethics Consideration, Corporate Governance Practice, Corporate Governance Mechanism, Organization Performance, Banking.

## I. INTRODUCTION

Good Corporate Governance (GCG) is a fundamental reference of practices, attitudes, and behaviors that arise from the moral responsibility to protect the company's customers, communities, employees, and shareholders. The GCG contains five main principles, namely openness (transparency), accountability, responsibility, independency, and equity (fairness). These five principles of the GCG embodied in the bank's operations through the implementation of internal control and risk management, information technology systems, the principles of

openness, and an emphasis on the importance of ethical behavior. According to [1] the corporate ethics strongly support the implementation of the GCG, because the ethics guiding conscience of the good and bad, right and wrong. The guidelines for ethical conduct binding on all commissioners, directors, and employees in dealing with customers, fellow employees, shareholders, business partners, and local communities in which the bank holding business activities. The principle of openness is applied through the disclosure of bank performance, especially financial, to the stakeholders, among others, in the form of annual reports, quarterly financial reports, informing the stock exchanges in Indonesia, the delivery of information to the public through the mass media, minutes and pre AGM (Annual General Meeting) memoranda, and the bank site on the internet.

Experience of past banking crises suggests that poor management of banks is partly due to the weakness of human resources. Based on this experience, to strengthen the resilience of the banking system the quality of bank management must be improved in order to avoid similar crises in the future. The efforts to improve the quality of bank management have started in 1999 with a focus on the creation of the GCG in the banking environment. The GCG is then performed through a fit and proper test for bank owners and management, application interviews for prospective owners and managers of banks (new entry), the appointment of the Director of Compliance, and investigation of criminal offenses in the field of banking. Fit and proper test is an attempt to create a banking human resource that has high integrity and competence. The assessment is done to the Board of Commissioners, Directors, and executive officers of the bank who had been active in the management of bank operations and is based on the results of the examination and supervision of Bank Indonesia (BI). Good banking system in a country is one of the indicators that the country has built GCG.

Ranking of the Corporate Governance organized by the Political and Economic Risk Consultancy and CLSA in Asia countries, showed results that Indonesia's ranks among the lowest. These results prove that the number of Indonesian companies that implement the GCG is still very low. These conditions can be detrimental to the Indonesian economy in the future because it reduces the attraction to invest in Indonesian companies among investors. According to [2], the challenges in implementing the concept of Corporate Governance is the

lack of socialization, reference, and understanding of Corporate Governance; the tougher competition and the high cost of the GCG consultant; maintain the consistency of the company, so having changes in the culture to follow the GCG is still considered a big leap; lack of perceptions from upper middle management and staff in relation to the implementation of the GCG. Based on these challenges can be concluded that the greatest obstacle in implementing the GCG lies in leadership commitment. The lack of leadership commitment caused the GCG has not been widely used as one of the assessment criteria for the election of directors so that the management of a corporation will get better. McKinsey's survey of investors' views on the quality of the implementation of Corporate Governance in Asian countries shows that Indonesia had the lowest value. With a scale of 1 (very poor) to 5 (very good), Indonesia scored 1.1 under Malaysia and Thailand, which each scored 1.5 and 1.7 [3]. All members of the company should include the values of business ethics in carrying out their functions. Individual business ethics aims to provide practical guidance for an executive in guiding lives both as corporate decision makers and as a human being. The important concept of the model of business ethics is an immediate requirement for executive interests in moral terms.

Reference [4] suggested that the business ethics model has two benefits. First, the benefits associated with the ethical behavior of employees and the appropriate executive commitment. Executive set up employees, which in turn will be able to fully turning the best potential of employees on. In the end, business ethics models will improve the company's productivity and product or service quality. The second benefit of business ethics model is repayment in morality. Employees and executives who behave ethically in actualizing itself will fully evolve and receive rewards from companies.

It can be concluded that the banking system of a country is very vital. If the banking system is not working then it is not only the banking industry would collapse, but it will also have a negative multiplier effect on the performance of economic systems, such as impaired growth of the real sector, high unemployment, and low economic growth.

This research was conducted in the banking industry, taking location in Jakarta. The purpose of choosing Jakarta as research location is to obtain data that are more centralized, and in order to obtain an answer from the party closer to the head office and branch offices which mostly located in the central government or in Jakarta. This research is done by selecting the area of research on banking business which operates or headquartered in Jakarta.

## II. THEORETICAL FRAMEWORK AND HYPOTHESIS

### *A. The Effect of Corporate ethics considerations on Organizational Performance.*

Reference [5] stated that an ethical organizational performance based on internal benchmarking, to help investors and managers in understanding, implementing,

and evaluating business ethics to improve the quality and quantity of business ethics. So the hypothesis can be arranged as follows:

#### ***H1. Company's ethical considerations affecting the organizational performance.***

#### ***B. The Effect of Corporate Ethics Considerations on Organizational Performance through Corporate Governance Practices.***

Reference [6] proposed model of ethical decision making through accountability. The results showed that the characteristics of moral issues, environmental, and individual differences affect ethical intentions. Reference [7], in his research on the personal characteristics of the owners / managers of the attitude / behavior of Corporate Governance found that there are 3 groups of owner / managers in small businesses, which include groups of: religious, business, and community. The results show that the business groups are less significant in terms of openness to the customer compared to other groups. The religious groups have a high significance in 6 sizes of attitude, such as: do not distinguish gender, accurately describe the product, no distinction to race, make payments to suppliers on time, has a corporate social responsibility, and obey the rules and standards that apply.

Reference [1] stated, the effect of ethical considerations on the Corporate Governance practices showed the results: 1) The checks and balances factor in corporate ethics consideration is positively related to Corporate Governance practices. 2) Corporate Governance practices Factor is positively related to organizational performance. 3) Company's Corporate Governance practices directly affect organizational performance, and the factors regarding ethical considerations: legitimacy, checks and balances, capital raising, creative mechanisms, and ethical leadership, also Corporate Governance practices on organizational performance are met. From the critical path analysis obtained result that showed: a). The checks and balances factor in corporate ethics considerations will react to Corporate Governance practices, and Corporate Governance practices also affect organizational performance. This suggests that ethical considerations not directly affect organizational performance, b). Two factors: legitimacy and capital formation is not linearly related to Corporate Governance practices and organizational performance.

From the results of research conducted by [1], the hypothesis of this study can be formulated as follows:

#### ***H2. Ethical considerations affect organizational performance through the practice of Corporate Governance.***

#### ***C. The Effect of Corporate ethics considerations on Organizational Performance through Corporate Governance Mechanisms.***

Reference [8] argued the importance of the composition of the Independent Board of Directors on control mechanisms. However, it has not found a significant relationship between the sizes of the Board of Directors with the value of the company. Reference [9] research results showed that the external Corporate Governance mechanisms and internal Corporate Governance

mechanisms are positively related to efficiency. External Corporate Governance mechanism in the form of reporting and financial monitoring that submitted to the government, as well as internal Corporate Governance mechanisms, such as: provision of Corporate Governance code adoption and donations of traditional Corporate Governance mechanisms related to the efficiency of donations. It is indicated that, government acceptance and finance government, the structure of the traditional donation is positively related to efficiency and type of business and not adopting a code of Corporate Governance. Reference [10] suggested that Corporate Governance mechanisms affect the earnings quality and organizational performance, in this case is the corporate image. Corporate Governance mechanisms include: managerial ownership, the Board of Directors, and audit committee affect earnings quality. Earnings quality is positively influence the value of the company. Statistically, Corporate Governance mechanisms affect the value of the company.

Based on those studies, when the company's VC (Venture Capital) has a high percentage of responsibility to creditors, they prefer to deal with formal supervision in facing a higher risk. The important fact is that when an organization has a low percentage of responsibility to the shareholders, they prefer to use informal methods to conduct supervision. It is included in personal management activity in the top level, such as: selection, agreement, testing and so on, to select a joint venture partner of the acquisition of personal income or make decisions that oppose the deal. Empirical results are conducted by [11], the null hypothesis on the ownership structure and the relative bargaining power is received in the Corporate Governance mechanism. Similarly, the null hypothesis on the complexity of management and technical characteristics of knowledge management partly accepted in his study. From these studies, it can be composed the following hypothesis:

**H3. Ethical considerations affect company's organizational performance through the mechanism of Corporate Governance.**

### III. METHODOLOGY

#### A. Validity Test

This research using Confirmatory Factor Analysis (CFA) to the validity of research instrument, from three criteria of factor loading (FL), i.e. 0.30, 0.40, and 0.50 this study used factor loading of 0.40 with reference to Hair *et al.* all the question items can be considered valid, because it has a factor loading > 0.40 [12].

#### B. Reliability Test

To measure the reliability of the research instrument was conducted using Cronbach's Alpha coefficient. Cronbach's Alpha coefficient close to 1 indicates high consistency reliability. From the reliability test results it can be concluded that in general, all study variables revealed reliable because each variable has a value of Cronbach's alpha > 0.60 [13].

#### C. SEM (Structural Equation Modelling Test)

$$PEP = B1 \text{ LEG} + B2 \text{ PK} + B3 \text{ PM} + B4 \text{ MK} + B5 \text{ EK} + E1 \quad (1)$$

$$KO = B6 \text{ PEP} + B7 \text{ PCG} + B8 \text{ MCG} + E2 \quad (2)$$

Where:

LEG: legitimacy PCG: Corporate Governance practice  
 PK: checks and balances MCG: Corporate Governance mechanism

PM: capitalization KO: organizational performance

MK: creative mechanism B1..B8: loading factor

EK: ethical leadership E1-E2: error term

Table I: Goodness-of-Fit Model

Goodness-of-fit Indices	Cut-off Value
Chi-Square ( $\chi^2$ )	Expected to be small $\chi^2$ with DF 99 is 123,225
Significance Probability (p)	$\geq 0,05$
CMIN/DF	$\leq 5,0$
GFI	$\geq 0,9$
AGFI	$\geq 0,9$
TLI	$\geq 0,9$
CFI	$\geq 0,9$
RMSEA	$\leq 0,08$

Source: [14]

### IV. RESULT AND DISCUSSION

#### A. Result of SEM

#### B. Suitability Model Test

Table II: Result Goodness-of-Fit Model

Goodness-of-fit Indices	Cut-off Value	Results	Model Evaluation
Chi-Square ( $\chi^2$ )	Expected to be small $\chi^2$ with DF 99 is 123,225	113,781	Good
Significance Probability (p)	$\geq 0,05$	0,147	Good
CMIN/DF	$\leq 5,0$	1,149	Good
GFI	$\geq 0,9$	0,890	Marginal
AGFI	$\geq 0,9$	0,849	Marginal
TLI	$\geq 0,9$	0,972	Good
CFI	$\geq 0,9$	0,977	Good
RMSEA	$\leq 0,08$	0,037	Good

Source: Processed primary data.

#### C. Path Coefficient Analysis

This analysis is seen from the significance of the magnitude of regression weight model which can be seen in Table 3 below:

Table III: The Direct Effect Path Coefficient

Independent Variable	Dependent Variable	Path Coefficients	P	Explanation
Corporate ethics consideration	Corporate Governance Practice	0,654	0,000	Significant
Corporate ethics consideration	Corporate Governance mechanism	0,558	0,000	Significant
Corporate Governance practice	Organizational performance	0,314	0,031	Significant
Corporate Governance mechanism	Organizational performance	0,270	0,023	Significant
Corporate ethics consideration	Organizational performance	0,319	0,044	Significant

Source: Processed primary data.

Table IV: Hypotheses Testing Results

Independent Variable	Intervening Variable	Dependent Variable	Path Coefficient	Explanation
Corporate ethics consideration	Corporate Governance practice Corporate Governance mechanism	Organizational performance	0,356	Significant

Source: Processed primary data

Seen from the value of factor loading, the direct effect path coefficient, and seen the results of hypothesis testing, an integrated research model of the relationship between variables can be seen in Figure 1 as follows:

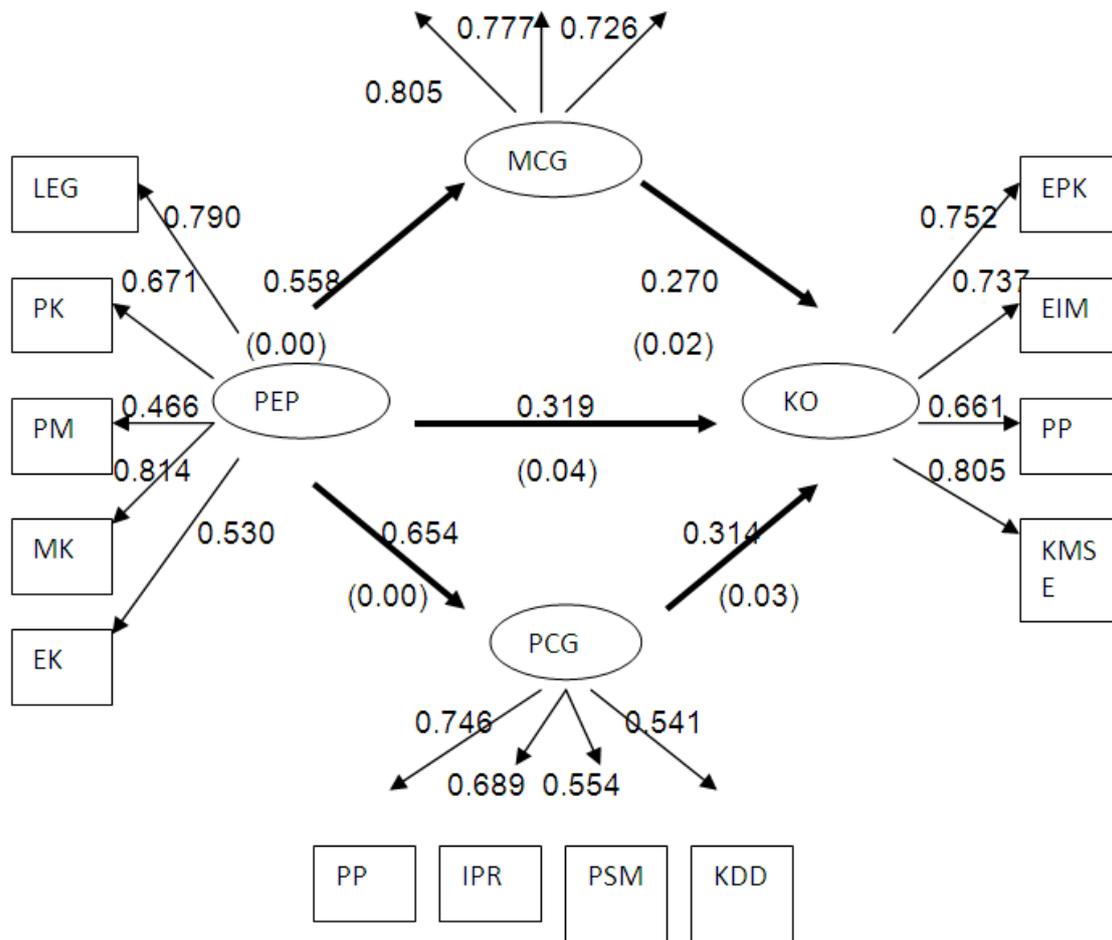


Fig.1. Research Models and Relations between Variables and Indicators

## V. DISCUSSION

### 1. The influence of Corporate Governance practices on organizational performance.

a) Seen from the direct effect path coefficients, it appears that the variable Corporate Governance practice has a significant positive effect on organizational performance with a coefficient value of 0.314. This shows the role of

Corporate Governance practices are larger than the role of Corporate Governance mechanisms of their effects on organizational performance, which has a coefficient of 0.270.

b) It was concluded that a positive Corporate Governance practices have a greater role to the improvement of organizational performance positively. The most influential factor on the Corporate Governance practice is company's protection of its shareholders and stakeholders.

Of all respondents largely agreed and strongly agreed to this factor, that is prioritizes the protection of their shareholders and stakeholders. Though the factors that most influence the Corporate Governance practice is the protection of the company's shareholders and stakeholders. This requires a treatment to change the perspective and attitudes of respondents in particular and the rest of the company for oriented to the protection of their shareholder and stakeholders.

c) On organizational performance variables, the largest percentage of respondents who answered agree, that is the indicator of the ability to obtain external sources, but there are still a few respondents who answered did not agree. It should be noted the respondents why they do not agree, and it required the effort from company to direct them in order to agree and commit to supporting the company in obtaining external resources.

d) It can be concluded that organizational performance is supported by factor / indicator of a company's ability to obtain external sources. However, the average of the respondents answered between sometimes agree towards agree, although the percentage who answered agreed have the greatest number. Required direction of the company through the leadership to realize the importance of the performance of each member to improve organizational performance by focusing more on the ability to obtain external sources. This requires businesses to gain investors and creditors trust to company through their attitude and behaviors that support it.

e) Direct effect path coefficients in Table 3, it was concluded that Corporate Governance practices are more focused on protecting the company shareholders and stakeholders in a positive way, such as: pay attention to the rights of investors which is not change after investing; bank personnel who are not misused the internal information to access the capital markets; as well as banks that protect the rights of its shareholders, investors, and stakeholders or employees if there is an undesirable situation; will affect the organizational performance which increases and positive. The organizational performance will be higher if company gives more attention on its ability to obtain external resources.

## 2. The influence of Corporate Governance mechanisms on organizational performance.

a) Corporate Governance mechanism has a positive and significant effect on organizational performance. It can be seen from Figure 1 and Table 3, with the coefficient value of 0.270

b) Regarding Corporate Governance mechanism, showed almost all respondents agreed on indicators of formal supervision. Means that the majority of respondents agreed with the formal supervision in terms of: the percentage of share ownership levels, selection, appointment, agreement to prevent a partner in decision-making that opposed to the treaty in an effort to make a profit. Company required an effort to change the managers who sometimes agree so that they will all agree on this.

c) It can be concluded that in an empowering mechanism of Corporate Governance, the company must conduct a formal monitoring system in the company. Existing

conditions on the respondent is in accordance with the requirement of the company in the implementation of Corporate Governance mechanisms.

d) From the result of the direct effect path coefficients, it can be stated that the presence of a positive Corporate Governance mechanisms that supported by the existence of a positive formal monitoring system, will affect the organizational performance that is increased and positive. Positive formal supervision on the level of the shareholding percentage, selection, appointment, agreement to prevent a partner in decision-making as opposed to the treaty in an effort to gain an advantage. Positive organizational performance focuses more on the ability of companies to obtain higher external resources. This is achieved due to external parties, such as investors and creditors have confident and believe that the company and all its members have shown a positive attitude.

## 3. Corporate ethics considerations influence on Corporate Governance practices.

a) Corporate ethics considerations have a significant and positive impact on Corporate Governance practices. It can be seen from the result of the direct effect path coefficients in Table 3 and from Figure 1 with a coefficient of 0.654. This value indicates a greater role corporate ethics considerations influence on Corporate Governance practices compared to the role of corporate ethics considerations on Corporate Governance mechanism that has a coefficient of 0.558.

b) Corporate ethics consideration, the largest percentage of respondents agreed on leadership ethics indicator. Means that there are a small number of respondents who did not agree that most influential factor is leadership ethic. It is possible that the perceptions of respondents who did not agree have a different perception of the corporate ethics considerations that prefers other indicators besides the ethical leadership.

c) Ethical leadership is defined as: the bank has made an introduction to the manager about the need for self-testing and self-discipline; bank guarantee stakeholder interests, and protect the rights of investors, employees and stakeholders, as well as the bank's activities to gain public confidence.

d) Checks and balances defined as: Bank guarantee purposes in serving the interests of bank shareholders; bank do internal controls and oversight to the manager of abuse; banks are trying to avoid the manager and director of misuse.

e) It was concluded that in order to carry out corporate ethics considerations, a company should pay more attention to the creative mechanism. To implement creative mechanisms need to be supported by the presence of ethical leadership in the implementation of checks and balances by the company.

f) From Table 3 the direct effect path coefficients, it can be concluded that corporate ethics considerations that pay more attention to the creative mechanism, supported by the presence of positive leadership ethics, with a positive implementation of checks and balances by the company, it will affect Corporate Governance practices positively which oriented to the protection of corporate shareholders

and stakeholders. This may imply that, positive creative mechanism, which is carried out in the presence of: bank promoting managerial efficiency within the company; bank has compiled direction and purpose and strategy of the organization, the bank has introduced a system of organization and management systems to managers and professional managers, and supported by the presence of a positive and ethical leadership in the application the company conducted supervision and balance which is also positive, it will be a positive influence on Corporate Governance practices which in the implementation are more emphasizing on the positive protection of the company's shareholders and stakeholders.

#### 4. Ethical considerations influence the company's Corporate Governance mechanisms.

a) From the direct effect path coefficients in Table 3 it appears that corporate ethics considerations positively and significantly affecting Corporate Governance mechanisms with the coefficient value of 0.558. With the company's attention more focused on the creative mechanisms of the manager and or leader as described above, which is supported by the presence of a positive ethical leadership among others, with the introduction to the manager about the need for self - testing and self - discipline requirements; bank guarantee stakeholder interests, protects the rights of investors, employees and stakeholders, as well as bank action to obtain public confidence that the implementation is done by company on checks and balances, it will be a positive and significant effect on Corporate Governance mechanisms are positively oriented formal supervision system in terms of: level the percentage of stock ownership, selection, appointment, agreement to prevent a partner in decision-making as opposed to the treaty in an effort to make a profit.

#### 5. The influence of corporate ethics considerations on organizational performance.

a. From table 3 which suggests direct effect path coefficients, it can be seen that corporate ethics considerations has a positive and significant effect on organizational performance.

b. It can be concluded that the positive corporate ethics consideration are more oriented on creative mechanisms in practice: Bank promote managerial efficiency within the company; bank has compiled direction and purpose and strategy of the organization, the bank has introduced the system of organization to the manager and introduce management systems to professional managers. In its application supported by the presence of ethical leadership personally with the application for the introduction to the manager about the need for self - testing and self - discipline requirements, bank guarantee stakeholder interests, protect the rights of investors, employees and stakeholders, as well as the bank's actions to obtain public confidence. Similarly, the existence of checks and balances by the company that carried out by: Bank guarantee purposes in serving the interests of bank shareholders; bank's internal controls and oversight to the manager of abuse; and banks are trying to avoid the manager and director of misuse. With the positive

implementation of these activities, then this will directly affect, positively and significantly, on organizational performance through the presence of the company's ability to obtain external resources such as: investment and creditors.

#### 6. Overall discussion

From the research model that can be seen from Figure 1 can be explained that there are 3 paths in the model. First, the variable corporate ethics consideration its effect on Corporate Governance mechanisms and its effect on organizational performance. Second, the variable corporate ethics considerations its effect on Corporate Governance practices and its effect on organizational performance. Third, variable corporate ethics considerations directly affecting organizational performance.

From Table 3 and Figure 1 it can be concluded that among the three paths, the second path, namely the influence of corporate ethics considerations on Corporate Governance practices, as well as its influence on organizational performance is the best path. This is because the value of the coefficient of the second path has a value greater than the value of the coefficient on the first path. In the first path, corporate ethics considerations positively and significantly affecting Corporate Governance mechanisms with coefficient value of 0.558, as well as Corporate Governance mechanism has a significant positive effect on organizational performance with a coefficient value of 0.270. In the second path, corporate ethics considerations has a positive effect on organizational performance with a significant coefficient value of 0.654, and Corporate Governance practices has a significant positive effect on organizational performance with a coefficient value of 0.314. While on the third path, corporate ethics considerations have a positive and significant effect on organizational performance with coefficient value of 0.319.

From the conditions above, in order to achieve positive and high organizational performance companies should focus on Corporate Governance practices than on Corporate Governance mechanisms, although in the implementation, these two variables must exist or be implemented together. In the application, the implementation of GCG through Corporate Governance practices and Corporate Governance mechanisms, beside the company notices the variables which should be considered first, then in the implementation of GCG, firstly a company should embed / execute corporate ethics considerations which supported by all members of the company. Based on the absence of corporate ethics considerations followed by all members of the company, followed by positive implementation of Corporate Governance practice and mechanisms, then it will achieve positive organizational performance.

#### 7. The linkage between the study variables with previous research

This research is a study on the implementation of GCG in its relation to organizational performance which is held on the banking industry. There have been many studies conducted related to the implementation of GCG by

including the effect of variable corporate ethics considerations on performance. But from some previous researches [1], are done separately, such as research on the effect of business ethics on performance. On the other hand one study inserting GCG, but does not include ethical aspects. This research was carried out by using a constructs variable with multiple indicators of each variable. There are several interrelated findings in this study, such as an indicator in the ethical considerations which affecting and will be associated with the following variables associated with the indicator variables which related and sustainable. As in the corporate ethics considerations, the most influential is creative mechanism supported by ethical leadership with checks and balances. This condition further affecting Corporate Governance practices and mechanisms that affect these variables are the protection of the company's shareholders and stakeholders as well as the presence of a formal monitoring system, which will ultimately improve organizational performance positively.

## **VI. LIMITATIONS OF RESEARCH**

This study has several limitations as follows:

1. This study only considers variables corporate ethics considerations influence on organizational performance through Corporate Governance practice and corporate ethics considerations influence on organizational performance through Corporate Governance mechanisms. Thus to see the direct influence of corporate ethics considerations on organizational performance. This research has not linked a direct relationship between the Corporate Governance practices with Corporate Governance mechanisms.
2. Target object or scope of this research is still limited, only in the banking sector. So that research results are concluded only be used for banking and cannot include the type and scope of other company or businesses with different levels. There are many banks that are involved in it, such as commercial banks, non-foreign banks, joint venture banks, and foreign banks. So that the results which can conclude certain types of banks can still be seen.
3. In addition the target of the banking sector could still be done on a wider scope, as in other service companies, or even at manufacturing and other types of businesses.
4. Because of the results of research conducted by the OECD turned out that companies which have implemented GCG is still limited to the large scope of businesses or large companies, and not all are willing to become a member of the OECD. It is expected that the next research object can be extended, so that it can represent the scope of more complex business organization.
5. Respondents of this study is limited to the managers, not include other stakeholders such as shareholders, customers, policy-makers, the Board of Commissioners, Board of Directors, and the Audit

Committee. So the results are less representative for respondents from wider stakeholder.

## **VII. CONCLUSION**

1. Corporate ethics considerations with the indicators consisting of: legitimacy, checks and balances, capital raising, creative mechanisms, and ethical leadership directly affects organizational performance.
2. Corporate ethics considerations directly affect Corporate Governance practices, and influencing organizational performance through the practice of Corporate Governance.
3. The indicator that most influence on ethical considerations is creative mechanism that is supported by the presence of individual leadership ethics and the existence of checks and the balance done by the company. Creative mechanisms which include: the existence of the introduction of managerial efficiency, aid in the development of direction and strategy, introduction of the system in management. Managers who have been introduced in efficiency, aid in the development of direction and purpose, and strategy of the company, the introduction of system in management, will better understand their work in carrying out the rules and the implementation of Corporate Governance practices positively in order to achieve positive and higher organizational performance.
4. Corporate Governance practices affect organizational performance. Factor/indicator that most affecting Corporate Governance practices is the protection of the company's shareholders and stakeholders.
5. Factor/indicator that most affecting Corporate Governance mechanism is a system of formal supervision. With the formal supervision which matches with the mechanisms or systems and procedures, and rules set out in the Corporate Governance mechanism, will have a significant effect on organizational performance.
6. Corporate ethics considerations affect the Corporate Governance practices and Corporate Governance mechanisms. It is proven that Corporate Governance practices and Corporate Governance mechanisms cannot be separated from corporate ethics considerations. Without corporate ethics consideration, GCG activities consisting of Corporate Governance practices and the Corporate Governance mechanisms will not run properly. With the awareness about the ethics, thus positive practices and mechanisms of Corporate Governance that will run in accordance with the emergence of ethical awareness, and therefore contributes to positive organizational performance.
7. Organizational performance which steadily increase and positive is influenced by ethical considerations, supported by Corporate Governance practices and Corporate Governance mechanisms. The factor that most affecting organizational performance improvement is the ability to obtain external sources.

### VIII. SUGGESTION

1. In the implementation of GCG which is implemented through practices and mechanisms of Corporate Governance, cannot be separated from corporate ethical considerations. The company should first lay a foundation of ethics on any activity or rules used.
2. The most influential factor in corporate ethics consideration is a creative mechanism, which in the implementation is supported by the presence of ethical leadership and the presence of checks and balances by the company.
3. In order to get corporate ethics consideration to be better and positive, the creative mechanism aspect must be more increased, which includes: bank action on the promotion of managerial efficiency, formulate direction and objectives and organizational strategy, and organizational management system introduced to the managers and professional managers.
4. Practices and mechanisms of Corporate Governance affect organizational performance. The factors that most affecting the Corporate Governance practices is the protection of the company's shareholders and stakeholders. Because the average manager is not implement it entirely and positively, then further protection efforts of members of the organization need to be increased, especially managers and leaders protecting shareholders and stakeholders.
5. The most influential factors on Corporate Governance mechanisms are a formal supervision system. Formal supervision should be carried out on: the level of the shareholding percentage, selection, appointment, agreements to prevent pressure in decision-making as opposed to the treaty in an attempt to make a profit.
6. In the implementation, although practices and mechanism of Corporate Governance carried out together, but company need to prioritize Corporate Governance practices first.
7. In order to more increase organizational performance positively, then the bank should more emphasis on the capability of the company in obtaining external resources, such as the support of investors and creditors. For that a company directs its members to further enhance the efforts to obtain external resources.

### REFERENCES

[1] Wu, C-F. 2006. The Study of the Relations among Ethical Considerations, Family Management and Organizational Performance in Corporate Governance. *Journal of Business Ethics*.68;165-179.

[2] Firanianty. 2006. GCG di Mata Manajemen dan Karyawan. *SWA* 26(XXII)11-20; 64-70.

[3] Paape, Scheffe, and Snoep, 2003. The Relationship Between the Internal Audit Function and Corporate Governance in the EU – a Survey. *International Journal of Auditing*. Volume 7, Issue 3, pages 247–262, November 2003.

[4] Bank Indonesia, 2005. Arsitektur Perbankan Indonesia.

[5] Spiller, Rodger. 2000. Ethical Business & Investment : A Model for Business & Society. *Journal of Business Ethics*, 27. pp.149-160, 2000.

[6] Beu, Danielle S; Buckley, Ronald & Harvey, Michael G. 2003. Ethical Decision Making: A Multidimensional Construct,

*Business Ethics: A European Review*.Vol.12, No.1, Jan.2003. pp.88-107.

[7] Quinn, John J. 1997. Personal Ethics & Business Ethics; The Ethical Attitudes of Owner/ Managers of Small Business. *Journal of Business Ethics*, 16,pp.119-127. 1997.

[8] Beiner, S., Drobetz, W, Schmid, F, & Zimmermann, H. 2004. Is Board Size an Independent Corporate Governance Mechanism? *Corporate Governance*. Vol. 6. No.5. 2004, pp. 6-18.

[9] Jobome, Gregory O. 2006. Public Funding, Governance and Passthrough Efficiency in Large UK Charities. *Corporate Governance*. Vol.3 No.4 2006. pp.16-28.

[10] Siallagan, Homonangan & Machfoedz, Mas'ud. 2006. *Mekanisme Corporate Governance, Kualitas Laba dan Nilai Perusahaan*. Simposium Nasional Akuntansi X. Unhas Makassar. 26-28 Juli 2007.

[11] Chou & Lin, Ching. 2005. An Empirical Study on Corporate Governance Mechanism & Its Antecedents: Evidence from Taiwanese Venture Capital Industry. *Journal of Business Ethics*, 61,pp.134-169, 2005.

[12] Ghozali, Imam. 2004. Aplikasi Analisis Multivariate dengan program SPSS, Badan Penerbit UNDIP, Semarang.

[13] Sekaran, Uma. 2006. *Research Methods for Business;A Skill-Building Approach*. 3th Edition. New York: John Wiley & Sons.

[14] Hair, Youseph F Jr; Rolp E. Anderson; Ronald L. Tathan & William C. Black, 1995. *Multivariate Data Analysis with Readings*, Macmillan Publishing Co. New York.

### AUTHOR'S PROFILE



#### **Asri Laksmi Riani**

was born in Surakarta, 30 Januari 1959. Following are her education record:  
 In 1996-1999 she was chosen as Management Department Secretary of Sebelas Maret University. Then in 1998-2000 she became the Head of PPKM LPKwu UNS. In 2001-2008 she was elected as The First Attendant of The Head of Sekolah Tinggi Ilmu Ekonomi Atma Bhakti Surakarta. One year later in 2009 she was chosen as The Head of Sekolah Tinggi Ilmu Ekonomi Atma Bhakti Surakarta till 2011 period. Currently she served as The Main Secretary of Magister Management Program of Economy and Bussiness Faculty of Sebelas Maret University for the period of 2012-1015. She has published many articles and books, among of them are The Influence Mentoring Status and Function to Auditor-supervisor Relationship with Organizational Justice and Auditor Feeling as Mediating (Journal of Business and Economics. Vol. 3, No. 5, October 2012. pp.351-356), Buku MSDM Masa Kini (Yogyakarta, Penerbit Graha Ilmu, ISBN: 978-979-756-711-8), and The Efficiency of Public Service Obligation for Food Subsidy in Indonesia: Review of Cost Structure Analysis (International Cross-Industry Research Journal. Perspectives of Innovations, Economics, and Business. Vol.7, Issue 1, pp.45-47). She has conducted many researches in human resources, entrepreneurship, and sharia economy.  
 Dr.Riani has been being the member of ISSEI Surakarta since 1987-2011. Currently, she is joined the SME, Cooperative, and Entrepreneurship Department of ISSEI Surakarta since the period of 2012. In a same period she also joins the AIMI till now. In 2000 Dr. Riani has been awarded as an achieving lecturer of Economics Faculty of Sebelas Maret University. In the same year she also has been chooses as the second achieving lecturer of Sebelas Maret University. On February and August 2002 she was given the award from Economy Faculty of Sebelas Maret University for her consistency in teaching and for fulfills the academic duties. In 2010 she achieved the 10 years Satyalancana Karya Satya award from President Dr. H. Susilo Bambang Yudhoyono. And in 2012 she also achieved the 20 years Satyalancana Karya Satya award from President Dr. H. Susilo Bambang Yudhoyono.

Degree	Institution	Place	Graduated
TK (Kindergarten)	TK Kal. Kerten	Kerten, Surakarta	1965
SD (Elementary school)	SD Negeri 39 Pijirejo	Kerten. Surakarta	1971

SMP (Junior Highschool)	SMP Negeri 1	Surakarta	1974
SMA (Senior Highschool)	SMA Negeri 4	Surakarta	1977
Sarjana (Undergratuat in )	Management Department, Economic Faculty, Universitas Sebelas Maret.	Surakarta, Central Java Province, Indonesia	1984
Magister (Postgraduate in Economics, Demographic, and Employment)	Demographic and Employment Program, Economic Faculty, Universitas Indonesia.	Jakarta, Indonesia Ekonomi, Kependuduka & Ketenaga- kerjaan	1994
Doktor (Doctor in Manajemen)	Doctoral Program in Economics Universitas Brawijaya.	Manajemen	2008