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The Effect of Corporate Governance And Financial Risk On Competitiveness

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Abstract

The competitiveness of land transportation companies listed on the Indonesia Stock Exchange is low and requires improvement efforts through the improvement of corporate governance and the financial risk management. So, the purpose of research to determine the effect of corporate governance and financial risk on competitiveness of land transportation companies listed on Indonesia Stock Exchange period 2012-2017. The research used quantitative method. The sample are financial report of 5 companies with 6-year observation period taken by purposive sampling technique. Data analysis used descriptive statistics and path analysis. The result of the research shows: there is no dirrect effect of corporate governance on competitiveness, there is no dirrect effect of of corporate governance on financial risk, and there is no indirrect effect of corporate governance on competitiveness mediated by financial risk.

Keywords: corporate governance, financial risk, competitiveness

Introduction

The current era of globalization has resulted in territories between countries and between regions within a country as if they had no limits. Likewise, mobility that moves quickly follows the development of an increasingly advanced era. To accommodate these conditions, transportation plays an important role in the movement of humans and goods. Transportation is also a factor forming the economic growth of a region and a leading sector for supporting development. Because of the importance of the role of transportation, the transportation sector must not be ruled out in its contribution to the economy of a country.

The transportation sector in Indonesia is growing along with the growth of the economy which is marked by the establishment of transportation companies. Data

ISSN: 2622-5778 (online)
Advances in Transportation and Logistics Research
http://proceedings.itltrisakti.ac.id/index.php/atlr

regarding land transportation companies, especially bus companies between provinces are as follows:

Table 1. Number of Inter-Province Bus Companies

Tahun	Jumlah Perusahaan
2013	974
2014	926
2015	934
2016	843
2017	576

Source: Ditjen Hubdat, 2017

Based on Table 1 shows that bus companies between provinces from year to year have decreased. This shows that the company's competitiveness is still low. The company is unable to withstand competitive conditions and the company's external conditions.

According to Markus (2008: 56), the term competitiveness comes from the power which means achieving more than others, or different from others in terms of quality or having certain advantages, so that competitiveness can be interpreted as the power to try to be superior in certain things carried out by certain groups or institutions. Porter (2008: 292) defines competitiveness as the ability or superiority used to compete in certain markets. The competitiveness of land transportation companies is getting tighter. This is partly due to the emergence of online-based transportation modes that eroded land transportation revenues namely taxis so that conventional taxi companies collaborated with online taxi companies such as Grab and Gojek. However, the collaboration has not improved the financial condition of the company. In addition, land transportation is also faced with poor infrastructure conditions. This results in cost overruns resulting in a decrease in company profits. Another problem is competition with other modes such as trains, ships, airplanes which results in smaller revenues received.

ISSN: 2622-5778 (online)
Advances in Transportation and Logistics Research
http://proceedings.itltrisakti.ac.id/index.php/atlr

Land transportation also relates to the national logistics system. Based on the 2018 Logistics Performance Index (LPI) released by the World Bank, Indonesia was ranked 46th with a score of 3.15 or up from the 2016 position in the 63rd rank with a score of 2.98. This increase is a significant achievement even though it has not been accompanied by a decrease in Indonesia's logistics costs which are still relatively high compared to other countries. However, Indonesia's position among other ASEAN countries actually fell from rank 4 to rank 5.

For land transportation logistics transportation is still in demand by many companies. This is because the cost is cheaper. Even though the government has provided alternative modes such as trains, sea transportation and air. However, because the cost is more expensive, the land route is still the main choice.

Land transportation companies exist as closed and open companies. Public companies sell their shares on the stock exchange. Stock exchanges can be used as a barometer of the country's economy. If the condition of the stock exchange is good, then the economy can be said to be good. Similarly, companies that go public can be used as a reference for overall industrial conditions. In addition, as a public company, the availability of information for investors must be fulfilled as one of the provisions issued by the stock exchange authority so as to facilitate the analysis of a company. Land transportation registered on the IDX is 9 companies, while the total transportation companies are 35 companies. Thus the percentage of land transportation companies is 26% of the total transportation sector.

Empirical data on return on assets (ROA) as one of the indicators of competitiveness of land transportation companies listed on the Indonesia Stock Exchange in 2012-2017 are as follows:

ISSN: 2622-5778 (online)
Advances in Transportation and Logistics Research
http://proceedings.itltrisakti.ac.id/index.php/atlr

Table 2. ROA Data of Land Transportation Companies Registered on the IDX 2012-2017

No	Nama Perusahaan	2012	2013	2014	2015	2016	2017
1	Adi Sarana Armada Tbk.	1,4	4,24	1,78	1,15	2,1	3,20
2	Express Transindo Utama Tbk.	4,5	6,17	3,91	1,19	-7,2	-24,38
3	Mitra International Resources Tbk.	3,03	10,88	-4,48	-3,94	-18,3	-4,81
4	WEHA Transportasi Indonesia Tbk.	1,54	0,34	0,74	-10,55	-8,4	16,47
5	Sidomulyo Selaras Tbk.	1,86	7,62	2,37	0,2	10,6	-10,05
Rata-rata		2.47	5,85	0,86	-2,39	-4,25	-3,91

Source: Author

Based on Table 2 shows that the average ROA from year to year has decreased. Even the ROA in 2015-2017 was negative which indicated that the company suffered losses. This indicates that the competitiveness of land transportation companies listed on the IDX has low competitiveness.

The low competitiveness of the company does not occur by itself, but rather is caused by, among others, corporate governance and financial risk. According to Zarkasyi (2008:12), corporate governance is a set of interrelated mechanisms consisting of institutional shareholders, board of directors, commissioners, managers, capital markets, ownership structures, financial structures, investors, and product competition. For Sutedi (2012: 1) corporate governance is a process and structure used by corporate organs (Shareholders / Capital Owners, Commissioners / Supervisory Board and Directors) to increase business success and corporate accountability to realize long-term shareholder value with keep in mind the interests of other stakeholders, based on laws and regulations and ethical values.

Corporate governance arises due to the different interests between company owners and managers assigned to run the company's operations known as agency theory. Managers can act opportunistically. While the principles of corporate governance are transparency, accountability, responsibility, independency, and fairness (TARIF).

ISSN: 2622-5778 (online)
Advances in Transportation and Logistics Research
http://proceedings.itltrisakti.ac.id/index.php/atlr

In Indonesia, corporate governance was born due to the economic crisis in 1999. Corporate governance practices before the economic crisis hit very badly. This is indicated by among others the existence of majority ownership that acts arbitrarily without any control from other parties. One form of supervision of majority ownership is through the existence of independent commissioners. The existence of an independent commissioner is one of the applications of the principles of corporate governance, namely independency. An independent commissioner is expected to be able to advise the board of directors on the running of the company without pressure from other parties. For companies in Indonesia, there is a bias in the implementation of independence caused by several trends such as the role of commissioners that are too strong in the company. If this happens, then the commissioner can become too intervening in the board of directors in carrying out their duties. So that the effectiveness of the board of directors in making technical decisions is hampered, and may not involve the directors at all in the company's decision-making process. In addition, the trends that occur in Indonesia also have the role of commissioners who are weak in carrying out their functions. This can be caused by several factors such as a very strong position of directors, weak competency and integrity of commissioners, and commissioners occupying the same position in several companies. Data on the proportion of independent commissioners as one of the implementation of corporate governance in land transportation companies listed on the Indonesia Stock Exchange in 2012-2017 averaged 38%. This indicates that the company has complied with regulations regarding the minimum proportion of independent commissioners by 30%. On the other hand, the company's competitiveness is still low. Research conducted by Sibanda et al (2017) revealed that the implementation of corporate governance by SMEs significantly and positively affects competitiveness. Another study conducted by Tobing et al (2013) shows that there is a significant relationship between the implementation of corporate governance and competitiveness. Thus it can be hypothesized:

ISSN: 2622-5778 (online)
Advances in Transportation and Logistics Research
http://proceedings.itltrisakti.ac.id/index.php/atlr

H_1: Corporate governance has a direct positive effect on competitiveness.

In addition to corporate governance, financial risk is one of the factors that influence the competitiveness of companies. According to Bramantyo (2008: 60), financial risk is the fluctuation of financial targets or the company's monetary size because of the turbulence of various macro variables. Financial measures can be in the form of cash flows, company profits and sales growth. Financial risk consists of liquidity risk, credit risk, capital risk. Meanwhile, according to Jorion (2007: 3), financial risk is a risk that relates to the possibility of loss to financial markets, for example losses due to changes in interest rates or due to a company default event in fulfilling financial obligations. The current loan rate is still high, which can lead to high risks faced by the company. If it is not managed properly, then the debt can result in loss of even business insecurity. Financial risk data with a debt to assets ratio (DAR) indicator for land transportation companies listed on the Indonesia Stock Exchange in 2012-2017 amounting to 56%. This indicates that more than half of the company's assets are financed by debt. The size of the DAR can affect the competitiveness of the company with an indicator of return on assets (ROA). The research results of Ssewankambo and Pule (2015) show the influence of financial risk on the competitiveness of the Bank. Thus it can be hypothesized:

H_2: Financial risk has a direct negative effect on competitiveness.

Financial risk can also be affected by corporate governance. With the existence of corporate governance, decision making will be carried out transparently and carefully. This is the same as making funding decisions made through debt. Managers will also be more careful to manage the debt and be used for investment purposes that can benefit the company. Thus, corporate governance will reduce the company's financial risk. Trinth et al (2015) research results show that corporate governance has a significant impact on the management of financial risk in the banking system. The results of Li et al (2013) research found evidence that

ISSN: 2622-5778 (online)
Advances in Transportation and Logistics Research
http://proceedings.itltrisakti.ac.id/index.php/atlr

corporate governance is negatively related to company risk. Thus it can be hypothesized:

H_3: Corporate governance has a direct negative effect on financial risk.

Based on the description above shows that corporate governance can directly affect financial risk and financial risk affect competitiveness. This provides an opportunity for the indirect influence of corporate governance on competitiveness with mediation of financial risk. The corporate governance mechanism will manage financial risks well which can improve the competitiveness of the company. Thus it can be hypothesized:

H_4: Corporate governance has an indirect effect on competitiveness by mediating financial risk.

Method

This study uses quantitative research methods. The method of analysis uses descriptive analysis and path analysis. The sampling technique in this study is non probability sampling, namely purposive sampling using certain criteria in the selection of research samples. Samples of 5 land transportation companies listed on the Stock Exchange in 2012-2017. Technical analysis using descriptive statistical analysis and path analysis.

Discussion and Result

To describe the condition of each research variable presented the results of descriptive statistical analysis which includes: minimum values, maximum values, average values and standard deviations that are processed using SPSS 22 and Excel under Windows programs. The results of the calculation of descriptive statistics for each indicator in each research variable are presented in table 3.

ISSN: 2622-5778 (online)
Advances in Transportation and Logistics Research
http://proceedings.itltrisakti.ac.id/index.php/atlr

Tabel 3. Descriptive Statistics of Research Variables

VARIABEL	Indikator	Minimal	Maksimal	Rata-Rata	Standar Deviasi
Tata kelola perusahaan	Proporsi komisaris independen	0,25	0,50	0,38	0,07
Risiko Keuangan	Debt to asset Ratio	0,24	0,88	0,56	0,17
Daya Saing	ROA	-24,38	16,47	-0,23	8,34

Source: Author

Variable corporate governance with proportion indicator independent commissioners have a minimum value of 0.25, a maximum of 0.50, an average of 0.38 and a standard deviation of 0.07. The average proportion of independent commissioners of 0.38 indicates that the sample company has fulfilled the provisions of the number of independent commissioners, which is at least 30% of the number of commissioners. While the standard deviation value of 0.07 shows a relatively small sample data deviation, because the value is smaller than the average value.

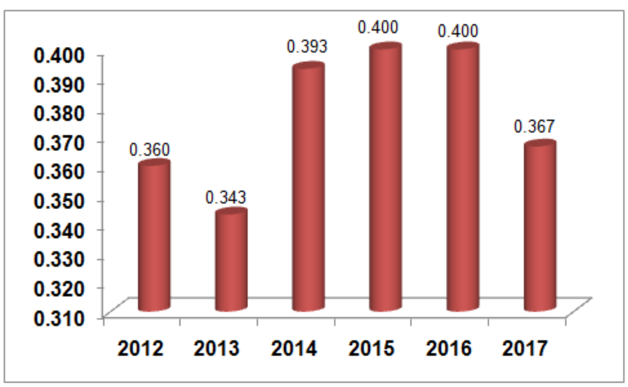

Figure 1. Annual Average Proportion of Independent Commissioners of Transportation Companies Land of Public Go 2012-2017

Source: Author

Judging from the average development, there is a tendency for fluctuations in the proportion of independent commissioners. The lowest average in 2013 was 0.343 (34.3%) and the highest in 2015 and 2016 was 0.40 (40%). However, the proportion of independent commissioners during the observation period still meets the minimum number of independent commissioners, which is at least 30%.

ISSN: 2622-5778 (online)
Advances in Transportation and Logistics Research
http://proceedings.itltrisakti.ac.id/index.php/atlr

Financial risk variables with indicators of debt to asset ratio have a minimum value of 0.24, a maximum of 0.88, an average of 0.56 and a standard deviation of 0.17. The average debt to asset ratio of 0.56 (56%) shows that the sample company uses 56% of debt in financing the company's total assets. While the standard deviation value of 0.11 shows the deviation of data on debt to asset ratio in a relatively small sample company, because the value is smaller than the average value.

Judging from the development of the annual average shows the tendency of an increase in debt to asset ratio as shown in Figure 4.2. In 2012 the debt to asset ratio was 0.53 (53%). In 2013 it amounted to 0.54. 2014 to 2016 amounted to 0.57. Kemuidan in 2017 increased again from the previous year to be 0.58.

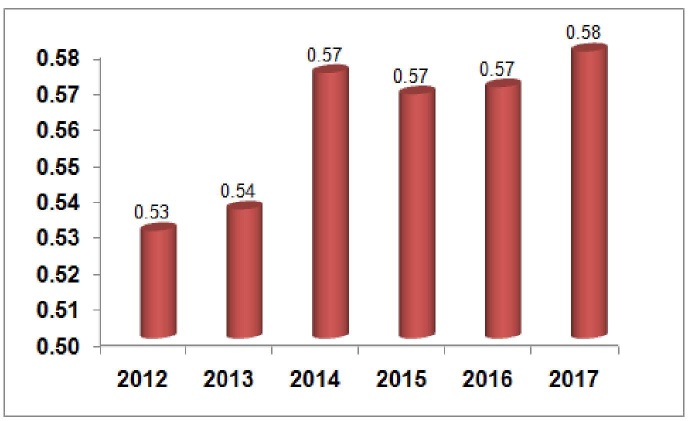

Figure 2. Annual Average Debt to Assets Ratio of Land Transportation Companies Go Public 2012-2017

Source: Author

Competitiveness variables with indicators of return on assets (ROA) have a minimum value of -24.38, a maximum of 16.47, an average of -0.23 and a standard deviation of 8.34. The average ROA of -0.23 indicates that the sample company has relatively low competitiveness because it has a negative ROA value which means that the company experiences a loss. While the standard deviation value of 8.34 shows the ROA data deviation in a relatively large sample company, because the value is greater than the average value.

ISSN: 2622-5778 (online)
Advances in Transportation and Logistics Research
http://proceedings.itltrisakti.ac.id/index.php/atlr

Annual average ROA development shows a downward trend as shown in Figure 4.3. In 2012 the average ROA was 2.466%, in 2013 it increased to 5.85%, in 2014 it decreased to 0.864%, in 2015-2017 had a negative ROA value of -2.39%, -4.253% respectively and -3,912%.

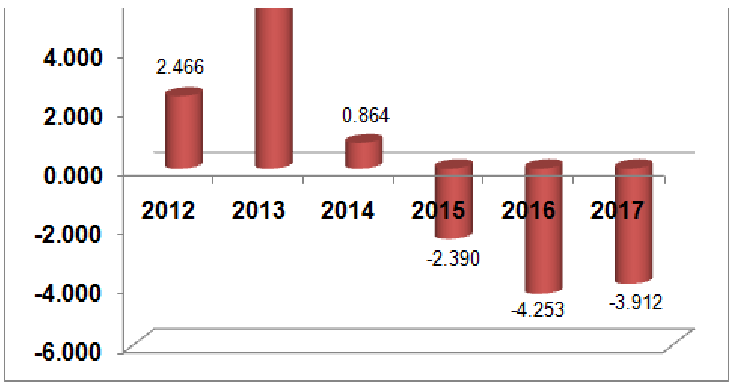

Figure 3. Annual Average ROA of Land Transportation Companies Go Public 2012-2017

Source: Author

The three variables above as a whole can be illustrated in the graph as follows:

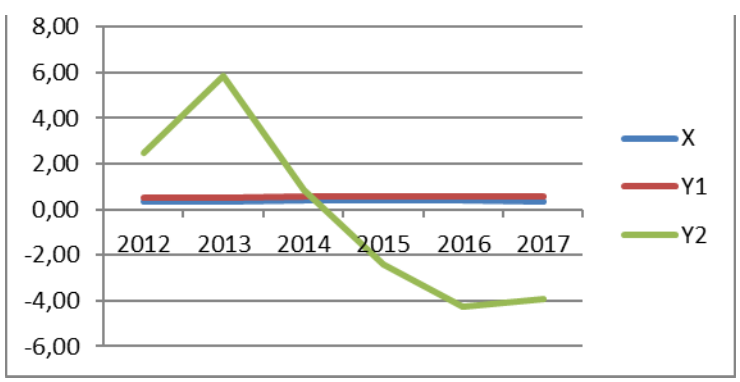

Figure 4. Graph of Corporate Governance (X), Financial Risk (Y1), and Competitiveness (Y2)

Source: Author

ISSN: 2622-5778 (online)
Advances in Transportation and Logistics Research
http://proceedings.itltrisakti.ac.id/index.php/atlr

Based on Figure 4 above shows that the movement of the proportion of commissioners as indicators of corporate governance (X) and DAR as indicators of financial risk (Y1) is not followed by the movement of ROA as an indicator of competitiveness (Y2) that is parallel. But the movement of ROA actually fluctuates. Meanwhile, the movement of the proportion of the board of commissioners is parallel with DAR.

While the path coefficient and t count can be seen in the following figure.

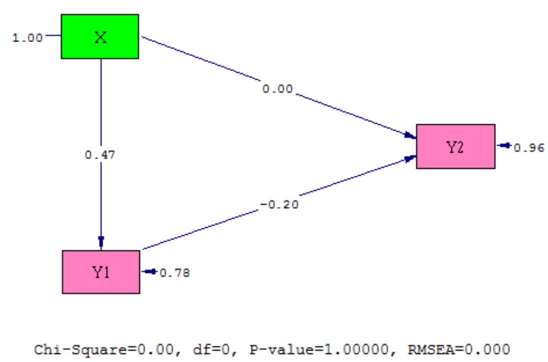

Figure 5. Pathway Effectiveness of Corporate Governance (X) and Financial Risks (Y1) against Competitiveness (Y2)

Source: Author

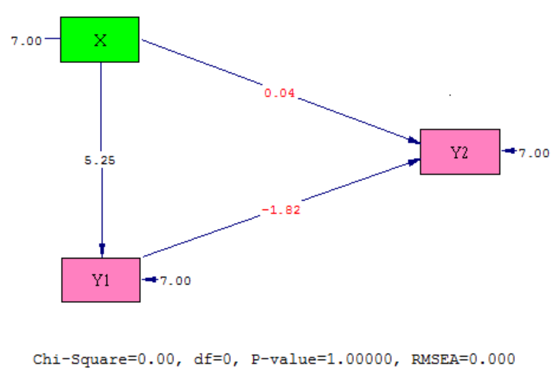

Figure 6. Calculate the Effect of Corporate Governance (X) and Financial Risk (Y1) against Competitiveness (Y2)

Source: Author

ISSN: 2622-5778 (online)
Advances in Transportation and Logistics Research
http://proceedings.itltrisakti.ac.id/index.php/atlr

The results of this study empirically prove that corporate governance has no effect on competitiveness, with an indication of the path coefficient of 0.0 and the value of t count = 0.04 <t table at α = 0.05 (1.98). This condition can be understood rationally. Corporate governance is a set of interrelated mechanisms consisting of institutional shareholders, board of directors, commissioners, managers, capital markets, ownership structures, financial structures, investors, and product competition that aims to ensure management actions will always be directed at increasing the value of the company with an indicator of the proportion of independent commissioners. The proportion of independent commissioners in the company is still limited to the fulfillment of the provisions of the Financial Services Authority (OJK) where the number of independent commissioners is at least 30% of the total number of commissioners. This results in the role and function of independent commissioners that have not been optimal in supervising the directors so that directors are still free to determine company policies even though it can reduce the competitiveness of the company. The role of directors who are still strong in running the company's operations as well as shareholders who are still in control of company policy has caused the role of independence of the board of directors to become weak. This causes the proportion of independent commissioners in independent board members to have no effect on competitiveness. Competitiveness is an advantage that is used to compete in certain markets. In this study the competitiveness indicator is profitability, namely the ability of the company to generate profit as measured by the ratio of return on assets (ROA). Return on assets is an overall measure of management effectiveness in generating profits with available assets. This means that corporate governance with an indicator of the proportion of independent commissioners cannot improve the company's competitiveness. Meanwhile, the research conducted by Sibanda et al (2017) revealed that the implementation of corporate governance by SMEs significantly and positively affects competitiveness. Another study conducted by Tobing et al (2013) shows that there is a significant relationship between the implementation of corporate governance and competitiveness. Thus the findings of

ISSN: 2622-5778 (online)
Advances in Transportation and Logistics Research
http://proceedings.itltrisakti.ac.id/index.php/atlr

this study do not support the results of previous studies that corporate governance has a direct positive effect on competitiveness with research settings on land transportation companies listed on the IDX. However, the results of this study are in line with the research of Putra and Nuzula (2017) who found evidence that the proportion of independent commissioners as indicators of corporate governance does not affect ROA as an indicator of competitiveness.

The results of this study empirically also prove that financial risk has no effect on competitiveness, with an indication of path coefficient of -0.20 and the value of tcount = −1.82 <t table at pada = 0.05 (1.98). This condition can also be understood. Financial risk is the risk caused by the use of corporate debt to finance company assets. The use of debt in a large corporate capital structure will increase financial risk where the risk is the risk of default due to the income of companies that are unable to cover debt payments. In addition, with the increasing corporate debt, the profits also decreased. Profit decreases, return on assets (ROA) as an indicator of competitiveness also decreases. This means that financial risk can reduce the competitiveness of the company. However, the use of debt if managed carefully will not reduce the competitiveness of the company. The size of the debt will not affect the competitiveness of the company. Meanwhile, the research results of Ssewankambo and Pule (2015) show that financial risk affects competitiveness. Thus the findings of this study are not in accordance with the results of previous studies that financial risk directly affects competitiveness with research settings on land transportation companies listed on the IDX. However, the results of this study are in line with Kusuma's (2016) study which concluded that the debt to asset ratio (DAR) as an indicator of financial risk does not affect return on assets (ROA) as an indicator of competitiveness.

In addition, the results of this study also prove that corporate governance has a positive effect on financial risk, with an indication of the positive path coefficient (0.47) and the value of t count = 5.25> t table at α = 0.01 (2.63) This is also not difficult to understand. Corporate governance is a set of interrelated mechanisms

ISSN: 2622-5778 (online)
Advances in Transportation and Logistics Research
http://proceedings.itltrisakti.ac.id/index.php/atlr

consisting of institutional shareholders, board of directors, commissioners, managers, capital markets, ownership structures, financial structures, investors, and product competition that aims to ensure management actions will always be directed at increasing the value of the company with an indicator of the proportion of independent commissioners. The task of the board of commissioners is to oversee the board of directors. The greater the proportion of independent commissioners, the more likely it is to increase debt as a control mechanism for the board of directors. With the existence of debt, the board of directors will be more careful in carrying out the operations of the company to account for the use of debt so that the company is in a profit or yield profit to pay off debt. In addition, the selection of additional capital through shares will be more expensive and will further increase shareholder control. The results of this study are in accordance with the results of research by Budiman and Helena (2017) that the proportion of independent commissioners has a positive effect on debt to assets ratio as an indicator of financial risk. The results of this study are also in line with the research of Tinth et al (2015) which shows that the proportion of independent commissioners has a positive impact on managing financial risk in the banking system. However, the results of this study are not in line with the research of Li et al (2013) found evidence that corporate governance is negatively related to financial risk.

In addition, the results of this study also show that corporate governance does not have an indirect effect on competitiveness by mediating financial risk, with an indication of path coefficient of -0.10 and tcount = -1.72 <t table at α = 0.05 (1.98). This finding is consistent with the results of testing other hypotheses that corporate governance has no direct effect on financial risk, and financial risk does not affect competitiveness. This condition certainly does not open up opportunities for the indirect influence of corporate governance on competitiveness by mediating financial risk. In this context, corporate governance with an indicator of the proportion of independent commissioners actually increases financial risk by

ISSN: 2622-5778 (online)
Advances in Transportation and Logistics Research
http://proceedings.itltrisakti.ac.id/index.php/atlr

emphasizing more on debt enhancement policies. However, the use of the debt if managed properly will not affect the decrease in return on assets (ROA) as an indicator of competitiveness. This finding is not consistent with the results of research by Sibanda et al (2017) which revealed that the implementation of corporate governance by SMEs significant and positive affect competitiveness, research Tobing et al (2013) which shows that there is a significant relationship between the implementation of competitiveness with corporate governance, and research by Li et al (2013) who found evidence that corporate governance is negatively related to company risk.

Overall the results of this study indicate that there is no influence of corporate governance on the competitiveness of companies, both directly and indirectly by mediating financial risk. This result confirms the empirical fact that in the case of land transportation companies listed on the Stock Exchange in the period 2012-2017 it turns out that corporate governance does not affect the competitiveness of the company, either directly or indirectly by mediating financial risk. Empirical facts are in contrast to the tendency of the results of previous studies (Sibanda et al, 2017; Tobing et al, 2013; Li et al, 2013) that led to research gaps that require further research, both quantitatively with use other / different indicators (proxies) as well as qualitatively to explore why corporate governance does not affect the competitiveness of companies, either directly or indirectly by mediating financial risk. Corporate governance variables can use the number of audit committee indicators, number of board of directors, managerial ownership; for financial risk variables using the indicators Debt to Equity Ratio and Long Term Debt to Equity Ratio; and for competitiveness variables can use market performance. This also indicates that other factors influence the competitiveness of companies that are not analyzed, such as the emergence of online-based transportation, poor infrastructure conditions, and competition with other modes.

ISSN: 2622-5778 (online)
Advances in Transportation and Logistics Research
http://proceedings.itltrisakti.ac.id/index.php/atlr

Conclusion

There is no direct effect of corporate governance on competitiveness, there is no direct effect of financial risk on competitiveness, there is no direct influence of corporate governance on financial risk, and there is no indirect influence on corporate governance on competitiveness by mediating financial risk.

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