

## EFFECTIVENESS MODEL OF LEADERSHIP, BUSINESS ENVIRONMENT AND ORGANIZATIONAL WORK CULTURE ON THE IMPLEMENTATION OF CORPORATE GOVERNANCE (GCG) IN BPR IN DKI JAKARTA

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**Abstract.** This research aims to establish a model of leadership effectiveness, business environment and organizational work culture on the implementation of corporate governance (GCG) in BPR in DKI Jakarta. The data collection method uses a survey method with the research instrument being a questionnaire. The data analysis method used in this research is the Structural Equation Model (SEM) – Partial Least Square (PLS) with the Smart-PLS analysis tool. The population used in this research was BPR in DKI Jakarta and the sample size was determined using a saturated sampling technique. The research results show that leadership, business environment and organizational work culture have a significant influence on corporate governance. Therefore, BPR must pay attention to variables that are indicators of good GCG practices to support the achievement of company performance targets. This research contributes to producing a model that is able to explain 81% of GCG implementation for banking in Indonesia, especially BPR.

**Keywords:** leadership; business environment; work culture; governance; banking

### I. INTRODUCTION

The background to this research begins with the health crisis, the Covid-19 pandemic has had a domino effect on social, economic and financial aspects. In the social aspect, the imposition of a lockdown on community mobility, social distancing has an impact on increasing unemployment and changes in lifestyle that relies on technology for activities. In the economic aspect, it causes obstruction of the global supply chain, contraction of economic growth and a shift in consumption levels where basic needs and health dominate. In the financial aspect, there was an increase in financial market volatility, an increase in NPL had an impact on decreasing financial sector performance, putting the financial system stability status on alert.

The impact of the Covid-19 pandemic on small and medium enterprises (MSMEs) caused a decline in sales of >50% and resulted in a decline in business profits of 90%. In addition, cash availability only lasts a maximum of 3 months, which is insufficient, making it necessary to adjust employee needs. Business actors are required to save on their company's operational costs. Many business actors with borrower status at banks/financial institutions experience difficulties in repayment.

According to Napitupulu and Puspitasari (2023), empowerment and development of MSMEs cannot be separated from the strategic role of the People's Economic Bank (BPR). BPR is one of the government's strategies for national economic recovery and employment. BPR is expected to make a big contribution in serving MSMEs,

especially to fund businesses, increase capital and develop MSMEs which are already underway to encourage the local economy and absorb labor. The last decade shows that the number of BPR has decreased. From 2008 to 2018, there were 90 BPR subscribed to by LPS for liquidation. In 2015 there were 1,800 BPRs recorded, but in November 2021 there were 1,631 BPRs registered and operating as shown in Figure 1.

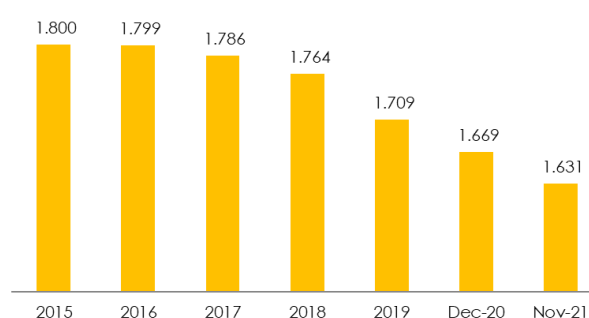


Figure 1. Amount of BPR/BPRS from 2008 to 2021

The current Covid-19 pandemic phenomenon is a new challenge for BPR. BPR business activities in carrying out credit activities experienced a slowdown and experienced problems reducing operational costs and this had an impact on BPR profitability (Khairunnisa et al., 2022). In this regard, a study has been carried out on the resilience of BPRs during the Covid-19 pandemic. The findings from this research

found that BPRs need to pay attention to their structural needs, including meeting capital and maintaining bank credit health (Puspitasari et al., 2023). However, maintaining structural matters for banks is not enough without implementing good bank management or CGC. Not a few banks have been liquidated due to the risk of fraud. The risk of fraud is often a factor in bank liquidation due to weak implementation of GCG (Indrajati et al., 2020). This shows that banking governance, especially BPR, is still weak. This phenomenon is a challenge for BPR. The results of more in-depth research show that although Indonesia has made several improvements in Corporate Governance regulations, and has created a new Corporate Governance code. However, enforcement is still weak. Based on the results of the Corporate Governance Watch Market Score 2019 Market Category Scores assessment as seen in Table 1.1, it shows that Indonesia's GCG index is low, especially in the enforcement aspect which is closely related to leadership and the business environment in which the corporation is located. Furthermore, the detailed aspect of the GCG assessment results on Indonesia Corporate Governance Culture has the next lowest value in the GCG index which is closely related to Organizational Culture.

Table 1. Corporate Governance Watch Market Score 2019 Assessment Market Category Scores

Market Category Scores (CG Watch 2019)	Percentage (%)
CG rules & practices	35
Enforcement	21
Political & regulatory	33
Accounting & auditing	58
CG culture	32
TOTAL	36

Studies on GCG have also been carried out in the context of leadership. Among them Dinçer et al. (2019); Bukhari (2023); Yan & Jones (2023), and Traore (2023) conclude that leadership is the key to successful quality GCG practices. According to Deng et al. (2023), leadership is an important part of every organization; it is often the basis of an organization's operations and a key driver of change. Determining which leadership model is most useful for developing leaders and achieving an organization's desired outcomes is a complex endeavor. Therefore, decades of research have focused on defining and understanding effective leadership, resulting in many leadership models. However, as these models become increasingly varied along with recent theoretical developments, navigating and applying them in practice can become very difficult. Because of this, transformational leadership is needed, namely leadership that is capable of acting as an agent of change who will direct subordinates to high performance and improve the quality of service to society.

Widiatmika & Darma (2018) stated that there is a close interaction between an organization's work culture and the implementation of the quality of GCG practices. Regarding the relationship between GCG and organizational work culture, Fandy (2000) suggests that the success of

implementing GCG principles can be determined by internal and external factors of the company concerned. One of the internal factors that has an impact on GCG is the organization's work culture (work corporate culture). Then Flores et al. (2022) added that regulations and policies issued by companies or organizations, risk control management, audit systems and information disclosure to the public greatly influence GCG. Meanwhile, external factors that influence it include; (1) a good regulatory system, (2) support for implementing GCG based on the public sector, (3) examples of appropriate GCG application, (4) a social governance system that supports the implementation of GCG in society, (5) improving the public environment has a big impact on quality and the company or organization's score in implementing GCG.

Ahmad et al. (2023) provides a definition that the business environment is a matter of how to know the development of trends, how these trends can affect business, and how to plan to deal with existing trends. The study conducted by Perényi et al. (2020) studied globalization and the determinants of the quality of GCG practices in vulnerable areas in Europe. European integration has stimulated great interest in the adaptation of small and medium-sized businesses in regions characterized by high levels of unemployment and lower than average incomes. In these circumstances, the problem arises of the extent to which economic competitiveness can be increased by changes in technology and the resources of European and national governments. This study uses detailed survey results on the quality of competitive GCG practices of Small and Medium Enterprises (SMEs) in selected vulnerable areas across Europe. This study focuses on the quality of companies adjusted GCG practices in four labor-intensive industries that are vulnerable to international competition. This study shows the results of econometric and statistical analyzes that show similarities and differences in the responses of SME companies to changes in the business environment. Significant learning emerged from this research data. It appears that there is a significant effect of company, country and industry on the quality of GCG practices. Unlike many other related studies, the results obtained are quite consistent across Europe.

In an era of ever-changing business environments, BPRs need to transform towards digital in order to remain competitive. This research intends that studies on GCG implementation can be useful for accelerating the digitalization transformation of BPR amidst competition and the threat of fintech companies through scientific studies that have never been researched before. Therefore, this research aims to test the model of leadership effectiveness, business environment and organizational work culture on the implementation of corporate governance (GCG) BPR in the DKI Jakarta Region.

The concept of agency theory explains the contractual relationship between the agent and the principal. The principal is the person who gives orders to the agent to do everything on behalf of the principal in his decision-making role (Sinkey, 1992; Jensen and Smith, 2000). Sinkey (1992)

states that banks, or deposit lenders, are one of the most important principal-agent relationships in the finance and financial services industry. Both parties have interests that can cause conflict. Principal-agent relationships consist of two types of problems: unknown behavior or unknown information.

Many studies have been conducted to examine GCG practices in supporting banking performance. Napitupulu et al., (2019) stated that banks really need GCG because of its unique characteristics compared to other companies, even compared to other financial institutions. This conclusion is supported by the results of a study by Purwadani & Imronuddin (2023) who argue that bank GCG needs to be implemented specifically because its nature is different compared to financial institutions whose regulations are not as strict as banking. Jensen and Meckling (1976) argued that banking GCG emphasizes mechanisms that reduce agency costs and agency problems. They emphasize that laws and law enforcement rules outlined in contracts are used to address agency problems. Agency problems in banks are mainly due to the potential for information asymmetry. Dasgupta (2023) claims that information asymmetry originates from bank fundamentals. This strengthens the results of Wahyudin & Solikhah's (2017) study, which found that limited access to information regarding bank activities hinders the implementation of GCG practices. Research by Puspitasari et al. (2023) strongly proves that banks with strong governance efficiency mechanisms report lower earnings than banks with weak governance efficiency. According to Panda & Leepsa (2017), implementing GCG in a company is expected to reduce agency costs and information asymmetry from separate ownership and control over a company, have effective monitoring characteristics and a disciplined mechanism to prevent opportunistic behavior from top managers. Apart from that, GCG encourages excellence and optimizes the use of available resources, leading to increased company performance. A similar thing was stated by Elkelish (2018) Corporate governance is related to agency problems: the separation of management and finance. A fundamental question about corporate governance is how to assure investors that they are getting a return on their investment. Several scientific research literatures highlight GCG as an endogenous variable, including research by Nerantzidis & Tsamis (2017) which found that the determinants of corporate governance ranking are ownership concentration, size of the board of directors and the type of accounting standards used by the company. Other research that raises GCG as an endogenous variable is the analysis used by Moro (2019) showing that companies that have large controlling shareholders, centralized finance (financial holding), companies owned by a pyramid group (shareholder coalition) have corporate quality. low governance. Syofyan & Putra (2020) stated that the quality of GCG practices is related to how organizations practice GCG to build healthier organizations that have the potential to have a sustainable existence. Another understanding of the determinants of the quality of GCG practices was put forward by Ahmad et al. (2021) where the determinants of the quality of a company's

GCG practices are related to management planning to implement the principle of openness in the processes and performance of the organization concerned. According to Napitupulu (2020), the definition of the determinant of the quality of GCG practices in the banking services industry is a Bank management procedure that applies the principles of openness, accountability, responsibility, independence and fairness. The following are the dimensions of GCG variables according to Napitupulu (2020) as seen in Table 2.

Table 2. Dimensions Of Gcg Variables According To Napitupulu (2020)

Researcher	Dimensions
Napitupulu (2020)	- Transparancy
	- Akuntability
	- Responsibility
	- Independence
	- Fairness

According to Thomas (2020) the level of business success or failure is determined by the leadership style of a company leader. Kotter (2017) stated that all organizations need leadership to guide the organization. Pepe (2021) added that leaders are problem solvers who are able to guide companies to face challenges and achieve achievements through the subordinates they lead. According to Puspitasari (2021), leadership is the ability to direct and influence other people to do something to achieve company goals in a governance manner. The following are the dimensions of the Leadership Variable according to Puspitasari (2021) as seen in Table 3.

Table 3. Dimensions Of Leadership Variables According To Puspitasari (2021)

Researcher	Dimensions
Puspitasari (2021)	- Vision
	- Use of Language that is easy to understand
	- Behavior as role model
	- Intellectual stimulation

Andersson et al. (2022) highlights the definition of the industrial environment in the context of the natural, social and work environment which has direct and indirect effects on company performance, for example factors that cause changes in sales, markets, local workforce, needs and so on. A similar definition was presented by Lozhkina et al. (2021), but they divide it into the general environment and the industrial environment. According to Fitriadi (2020), GCG needs to be realized in a triple bottom line which gives birth to the concept of Corporate Social Responsibility (CSR) as a form of company responsibility towards its social environment. Napitupulu (2020) concluded that the business environment

is the general and industrial environment that has an influence on the company. The following are the dimensions of business environment variables according to Hapsari (2024) as seen in Table 4.

Table 4. Dimensions Of Business Environment Variables According To Napitupulu (2020)

Researcher	Dimensions
Hapsari (2024)	- Norm
	- Organizational atmosphere
	- Organizational value
	- Regulatory philosophy

There is not much literature that examines organizational work culture in the banking industry. One of them is Adinew (2023), who states that an appropriate organizational work culture will raise employee morale to a level of intrinsic satisfaction and increase productivity, create a conducive company climate and harmonization within the company. This idea is in line with the findings of Brown-Crawford (2022) who found that high employee morale will have a positive impact on the organization's work culture and in turn improve company performance. Wendy et al. (2023) said that an organization's work culture influences the quality of GCG practices. There are several other variables that may have this relationship. Although further research is needed to confirm this, organizational work culture is an important aspect for the quality of GCG practices. A study conducted by Napitupulu (2020) found that organizational work culture is all the tools owned by a company that direct all human resources to carry out their duties in accordance with the company's values, code of ethics and GCG to achieve the company's vision. The following are the dimensions of organizational work culture variables according to Napitupulu (2020) as seen in Table 5.

Table 5. Dimensions Of Organizational Work Culture Variables According To Napitupulu (2020)

Researcher	Dimensions
Napitupulu (2020)	- Internal environment: independence of the Board of Directors and Shareholder Intervention
	- External environment: influence of country and industry

Previous research results show methods for modeling corporate governance or GCG in the banking industry, especially commercial banks. However, this phenomenon emerged when there was still scope for research that had not been studied regarding the investigation of modeling

corporate governance or GCG in BPR, especially in the context of developing countries such as Indonesia so that it could be known earlier. The hypothesis built in this research is as follows:

$H_1 : \mu_1 > 0$  Leadership has a significant positive effect on BPR GCG practices

$H_2 : \mu_2 > 0$  The business environment has a positive influence on BPR GCG practices

$H_3 : \mu_3 > 0$  Organizational work culture has a significant positive effect on BPR GCG practices

## II. RESEARCH METHODS

The method used for this research is a descriptive quantitative method. Quantitative research methods are based on the philosophy of positivism which are used to research certain populations or samples. Data was collected using research instruments, data analysis was quantitative/statistical to test hypotheses that had been established and described using an inferential approach to draw conclusions at the end of the research deductively (Caroline, 2019). The analysis method begins with the presentation of descriptive statistics and continues with factor analysis and calculations based on the Structural Equation Model (SEM). There are 3 steps of analysis, namely checking the validity and reliability of the instrument, testing the relationship model between variables and obtaining an accurate model for predictions. The research stages start from desk study mapping secondary data, preliminary research, checking the validity and reliability of instruments, distributing questionnaires, developing models and testing models of relationships between variables (path analysis), estimating model coefficients, evaluating estimation results and model suitability, interpretation and modification and validation of the final model, and ending with finalization of various research outputs based on the results of the analysis in the previous stage.

This research consists of variables, dimensions and indicators consisting of three exogenous latent variables and one endogenous latent variable. The research data source is primary data obtained from distributing questionnaires distributed directly to respondents. The respondent from this research was one BPR administrator (commissioner or director) so that the total number of respondents was 26 people. The chosen unit of analysis is BPR operating in DKI Jakarta. This research uses a Likert scale in the questionnaire. The questionnaire uses an even number of choices (to avoid the tendency to answer in the middle), namely 6. Answer choices are in the form of 1 to 6, namely 1: Strongly disagree, 2: Disagree, 3: Disagree, 4: Quite agree, 5: Agree, 6: Strongly agree. Questions are derived from the indicators of each variable dimension. The results of calculating the average indicators for each dimension will be classified into three scales, namely poor, quite good and good. The following is the transformation of the average data into three scales:  $Range = (X_{max} - X_{min}) / 3 = (6 - 1) / 3 = 1.67$ . Thus, it can be classified into three categories as follows:



Table 6. Category Classification

Interval	Category
1 – 2.67	poor
2.67 – 4.33	worth
4.33 – 6.00	good

### III. RESULTS AND DISCUSSION

The research objects were all BPR in DKI Jakarta, which at the position in December 2015 numbered 26 BPR. Respondents were 26 BPR administrators (directors and commissioners) in DKI Jakarta consisting of 22 Directors (12 Compliance Directors and 10 Directors) and 4 Commissioners. 7 of them are women and 19 men. The majority of respondents had a strata 2 education, 13 people, 10 people in strata 1, 3 people in strata 3, while none had a high school or D3 education as seen in Figure 1.

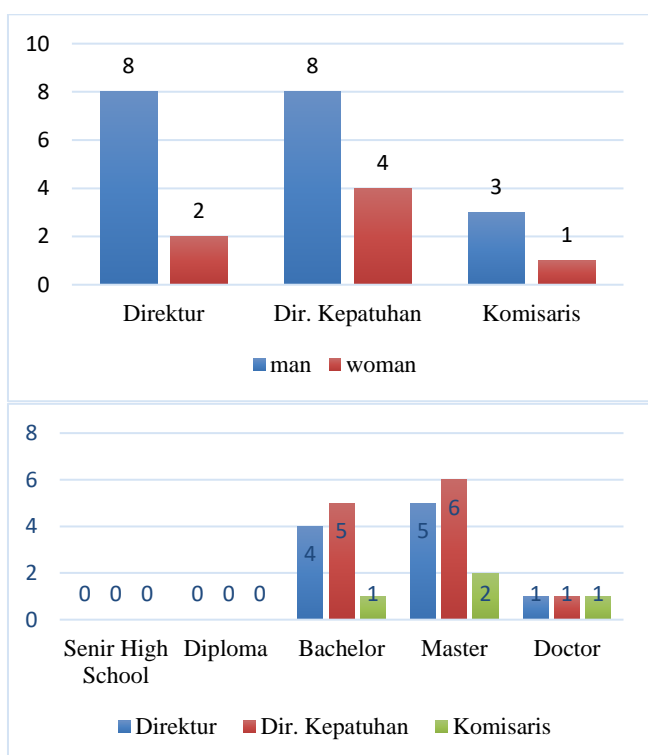


Figure 1. Description of Research Respondents

Based on the category classification in Table 6, it shows that all research variables are in the score range of 4.27 – 4.66, which means they are in the criteria of quite good and good. These results illustrate that the implementation of corporate governance (GCG), leadership, organizational work culture, business environment is quite good and good. The variable that got the highest score was corporate governance, namely 4.66 (Good) and the one that got the lowest score was

the business environment with a score of 4.54 (Good) as seen in Graph 2.

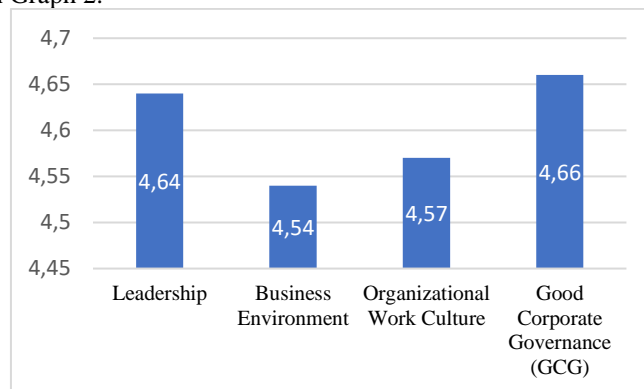


Figure 2. Average Value of Research Variables

Hypothesis 1 is to test the direct influence of leadership on GCG. Below is an image that reflects the hypothesis. The test results based on Figure 3 show that the direct influence of leadership on GCG is significant and positive. The calculated t value of 26.55 is greater than the t table alpha of 5%, namely 1.96. The positive coefficient of 0.84 reflects a positive relationship to GCG. The results are in accordance with the hypothesis that leadership has a positive and significant effect on GCG.

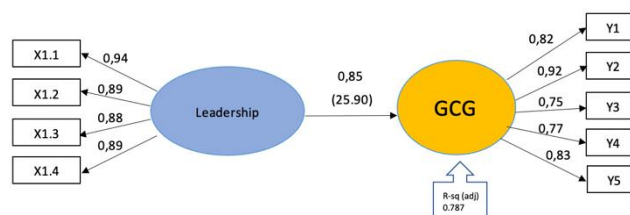


Figure 3. Relationship between Leadership and GCG

Hypothesis 2 is to test the direct influence of the environment on GCG. The test results based on the Figure 4 show that the direct influence of the business environment on GCG is significant and positive. The calculated t value of 14.71 is greater than the t table alpha of 5%, which is 1.96. The positive coefficient of 0.83 reflects a positive relationship to GCG. The results are in accordance with the hypothesis that the business environment has a positive and significant effect on GCG.

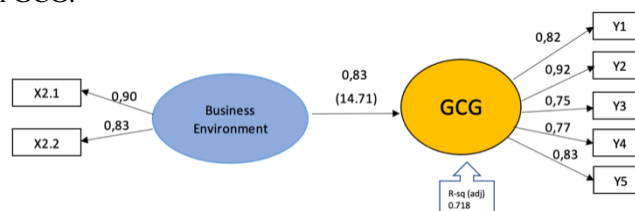


Figure 4. The Relationship between the Business Environment and GCG

Hypothesis 3 is to test the direct influence of organizational culture on GCG. The test results based on Figure 5 below show that the direct influence of

organizational culture on GCG is significant and positive. The calculated t value of 25.90 is greater than the t table alpha of 5%, namely 1.96. The positive coefficient of 0.85 reflects a positive relationship to GCG. The results are in accordance with the hypothesis that organizational work culture has a positive and significant effect on GCG.

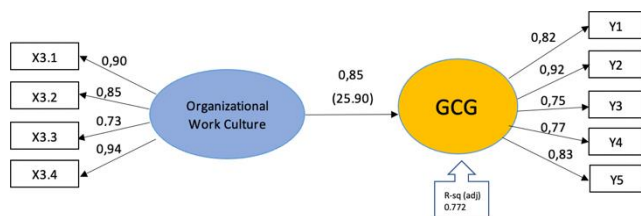


Figure 5 The Relationship between Organizational Work Culture and GCG

Based on Figure 6 it can be seen that Rsq Adjusted, the calculated t value of each loading factor and the influence coefficient, are used to determine whether a loading factor is valid and an influence coefficient is significant by comparing the calculated t with the t table. It can be concluded that each loading factor and t-count produced is valid, significant and positive and the adjusted R square result for the complete model is 0.81 or 81%, meaning that this model is able to explain 81% of the implementation of GCG practices in BPR while the remaining 19% explained by other factors outside the model.

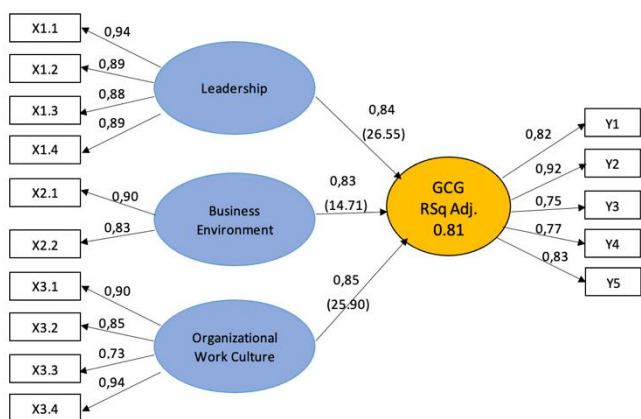


Figure.6. Model Testing Results

The model results are in accordance with several studies, including the relationship between leadership and GCG which is strengthened by research conducted by Dinçer et al. (2019); Bukhari (2023); and Traore (2023) who concluded that there is a significant influence between transformational leadership and good corporate governance. Deng et al. (2023) provide empirical justification that ethics, especially ethical leadership, is very important in developing good governance practices. These findings establish corporate governance as a social process and not as an economic logic. A study conducted by Yan & Jones (2023) concluded that transformational leadership can influence the implementation

and implementation of good governance and provide trust to the community. This means that H1 is accepted.

The model results are in accordance with several studies, including the relationship between the business environment and GCG, strengthening the findings of Ahmad et al. (2023). It is hoped that the change in the role and function of human resources from traditional to business and strategic roles and functions will bring new changes in the company management system which will lead to the realization of Good Corporate Governance and Corporate Social Responsibility. In this way, companies can respond to the demands and challenges of changes in the business and social environment so that they can increase their competitive advantage in international markets. Corporate responsibility does not only apply to the company's internal (single bottom line) in the form of corporate values which are reflected in financial conditions, but is also more based on the company's external (triple bottom line) in the form of overall responsibility. financial, social and environmental. The principle of responsibility in GCG, which is realized in the triple bottom line, is what gave birth to the concept of Corporate Social Responsibility (CSR) as a form of company responsibility towards its social environment (Fitriadi, 2020). The findings of this study show that H2 is accepted.

The test results show that H3 is accepted. The model results are in accordance with several studies, including the relationship between organizational culture and GCG which was strengthened by Widiatmika & Darma (2018) with research results showing that organizational culture has a significant and positive effect on the application of GCG principles and is also strengthened by research conducted by Flores et al. (2022) that there is a significant influence of the organization's work culture on good corporate governance. Brown-Crawford (2022) states that an appropriate organizational culture will raise employee morale to a level of intrinsic satisfaction and increase productivity, create a conducive company climate and harmonization within the company. The results of this research are also in line with the findings of Adinew (2023) who found that high employee morale will have a positive impact on organizational culture and in turn improve performance which is supported by the implementation of good corporate governance.

#### IV. CONCLUSIONS

This study confirms that BPR need to perfect their corporate governance strategies which are influenced by leadership, business environment and organizational work culture. Transformational leaders are needed to be able to face changes in the dynamic business environment and create a work culture that touches high employee morale. This ability to touch employee morale can have a positive impact on the organization which ultimately has an impact on organizational performance. BPRs, which are the main source of support for Small and Medium Enterprises (SMEs), need to be able to survive in the competitive banking industry through implementing prudential principles and fulfilling sound banking principles. This study is useful for BPRs to pay

attention to business governance. It is hoped that this research can optimize its role in improving the local economy and MSMEs. Future studies to develop research on People's Economic Banks can use different methodologies, variables, data or proxies. Write those who assist in research, especially funding your research supporters. Include individuals who have assisted you in your studies: Advisers, financial backers, or perhaps other supporters, namely Pro-readers, Typists, and Suppliers who may have provided material. We are deeply indebted to LPPM Mercu Buana University Jakarta-Indonesia, for warm support, inspiration and thoughtful guidance. We are enormously grateful for this collaboration and special thanks to Pelita Bangsa University, Cikarang Indonesia for helping and cooperation during our research.

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