Research Article

Does Fit and Proper Able to Moderate The Relationship of Leadership and Good Corporate Governance?

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Abstract: This study aims to examine the effect of the leadership of banking companies on the implementation of GCG in Indonesia. This study will also investigate the influence of fit and proper test as moderating variable.The method used in this study uses calculation based on Structural Equation Model (SEM). The object of the study was all national commercial banks operating in Indonesia. The respondent in this study was one person from the board of directors at the bank, in which the total respondents were 115 respondents. The results showed that leadership is an important factor in the success of GCG practice. Fit and proper is proven to strengthen the success of GCG practice. Properly implemented governance can ensure the continuity of banking operations.This research will be useful in knowing the results obtained when selecting the right leader through a fit and proper process in the banking sector by considering the indicators examined in this study.

Keywords: Leadership, Good Corporate Governance, Fit and Proper

1. Introduction

Governance in financial institutions became a serious issue when the financial industry in the United States and Europe was hit by a crisis several years ago. The affected banks or financial institutions are leading financial institutions, such as Lehman Brothers, Bear Stearns, Citigroup, Merrill Lynch, in the United States and in Europe such as Royal Bank of Scotland, HBOS (UK), Continent Hypo Real Estate, The German State Bank, Dexia, Fortis, and UBS.

After the aforementioned crisis, GCG has returned to the centre of attention after being neglected for a long time. Puspitasari *et al.* (2020) and Hopt (2013) raises the issue of GCG referring to the case of world banks / financial institutions above, correcting previous views on GCG, which among them were written by Lipton and Lorsch (1992; Munoz, 2019), Khalid and Hanif (2005), Fauver and Fuerst (2006), Kanagaretnam *et al*., (2007). Hopt (2013) and Puspitasari (2011) emphasised the significance of GCG for economic establishments due to the fact the failure of the governance of a financial institution and economic organization led to an economic crisis.

Djokic and Duh (2016) argue that cases of fraud, accounting scandals and business failures that occur around the world which usually lead to legal problems or bankruptcy make corporate governance a very important topic. Even Lenssen, *et al*., (2014) concluded that the 2008-2012 financial crisis showed the failure of a sustainable global system and corporate responsibility due to weak / limited corporate governance in contributing to sustainable business in a sustainable economy.

Studies on GCG have also been carried out in the context of resources. Pertusa-Ortega et al., (2010), for example, show that organizational structure does not directly contribute to performance, but has an indirect effect through the determinants of resources on GCG. Then, Van (2005), Nave (2005), Plowman et al., (2007) and Stahl (2007) concluded that leadership is the important thing to the a hit excellent of GCG practice.

But the phenomenon arises when in fact the implementation of GCG in companies in Indonesia is still relatively low. A survey performed with the aid of using the Asian Corporate Governance Association in September 2016 of 11 (eleven) international locations in Asia illustrates that Indonesia is with inside the closing function in imposing GCG.

According to Hamka (2007), leadership is the spearhead of the successful implementation of bureaucratic reform in government organizations. A leader with various inherent characteristics and the responsibility he carries is demanded to be more aggressive in innovating and contributing to the expected change process. In realizing excellent service, a leader must have the courage to make changes. Therefore, transformational leadership is needed, namely leadership that is capable as an agent of change that will direct subordinates to high performance and improve the quality of service to society. This examines tries to take a look at the impact of the leadership of banking corporations at the implementation of GCG in Indonesia. The impact of leadership at the implementation of GCG is important when you consider that each of them can display the fine of the company's cap potential to compete and innovate. This examines may even take a look at the effect of moderating variables, specifically the fit and proper test.

2. Literature Review

2.1 Leadership

According to Hamka (2007), leadership is the spearhead of the successful implementation of bureaucratic reform in government organizations. A leader with various inherent characteristics and the responsibility he carries is demanded to be more aggressive in innovating and contributing to the expected change process. In realizing excellent service, a leader must have the courage to make changes. Therefore, transformational leadership is needed, namely leadership that is capable as an agent of change that will direct subordinates to high performance and improve the quality of service to society.

Table 1. Definition of Leadership Variables

No	Author	Year	Definition
1	Selznick	1984	The leadership of the company is the party responsible for the vision and quality of the company's GCG practices and moves the organization.
2	Bass and Avalio	1994	Leadership is an ability that has dimensions of charisma, inspiration, individual consideration, intellectual stimulation, contingent rewards, management by exception, active and passive in carrying out its responsibilities.
3	Plowman *et al.,*	2007	Leadership is the capacity to guide the company in facing challenges and achieving achievements through the company's human resources.
4	Stahl	2007	Company leadership includes the capacity to direct people in the right direction to achieve the mission, vision and still believe in the company's philosophy and values.
5	Napitupulu *et al.*	2020	Leadership is the ability to direct or influence other people to do something to achieve company goals in a governable way.

Thus, it can be concluded that leadership is the ability to direct or influence other people to do something to achieve company goals in a governable way.

Leadership Dimensions

Bass (1985) further states that there are 5 (five) dimensions of transformational leadership, namely i) vision, ii) inspirational communication, iii) supportive leadership, iv) intellectual stimulation, and v) personal recognition.

Bass's (1985) idea of transformational leadership is more than just providing a stimulus to get the desired performance through development, intellectual stimulation and inspiring followers to achieve something beyond their personal interests to become bigger interests (interests, mission and shared vision). This behavior expands the scope of leadership, beyond just carrying out corrective or constructive activities. He places transformational leadership as a construct consisting of three conceptual factors, namely charisma, intellectual stimulation, and individual consideration.

Leaders who are considered transformational are leaders who focus their efforts on long-term goals, place values and prioritize developing a vision. This type of leader inspires his followers to pursue the vision and change or adapt the system to accommodate his vision rather than working within the existing system. They train their followers to take better responsibility for the development of themselves and others.

Then, Van (2005), Nave (2006), Plowman et al., (2007) and Stahl (2007) concluded that leadership is the key to a successful determinant of the quality of GCG practice. The leader is responsible for the vision and quality of the company's GCG practices as well as all efforts to drive the organization. Plowman et al., (2007) and Stahl

(2007) emphasize that all organizations need leadership to guide the organization and that leaders are problem solvers who are able to guide companies to face challenges and achieve achievements through the employees they lead. Stahl (2007) adds that company leadership has the capacity to direct staff in the right direction to realize the quality of GCG practices that are consistent with the company's philosophy and values. According to Rossouw (2009), trust in leaders is one of the factors that has contributed to the awakening of interest in corporate governance. There is an expectation that adherence to the principles and practices of good corporate governance will increase stakeholders' trust in the business.

Meanwhile, the leadership dimension according to Stahl (2007) includes i) intellectual stimulation, ii) vision and philosophy and iii) ability to direct. Leadership Dimensions comparison based on literature as in Table 2.

Table 2. Comparison of Leadership Dimensions

No	Authors	Year	Dimensions
1	Selznick	1984	Vision and Quality of GCG Practices
2	Bass dan Avalio	1995	Communicative, Inspirational, Decision making, Intellectual stimulation, Contingency rewards
3	Plowman *et al.*	2007	Behavioral patterns, Ability to manage words, Use of language that is easy to understand
4	Stahl	2007	Vision and philosophy, Ability to direct, Intellectual Stimulation
5	Napitupulu	2019	Vision, Use of language that is easy to understand, Behavior as a role model, Intellectual Stimulation

Source: Opinions of several experts

2.2 Fit and Proper

Another issue affecting the first-class of GCG implementation is the procedure of due diligence in occupying the placement of financial institution leader. Khalid and Nadeem (2004) recommended that each with inside the growing and evolved countries, the first-class of GCG implementation is decided through the evaluation with inside the fit and proper test to take a look at of financial institution leaders. Hopt (2013) said that GCG practices in banks are one of a kind from different industries, and the lifestyles of fit and proper test has an impact at the first-class of GCG implementation. One aspect which drives the powerful GCG implementation is a procedure that guarantees that financial institution leaders lead and run the GCG procedure efficiently through the fit and proper test (Puspitasari *et al*., 2020).

The fit and proper test is a moderating variable on this study. The great of GCG implementation may be recommended with the aid of using having a very good fit and proper test process. Indirectly, the fit and proper test has an impact at the implementation of GCG through the cap potential of the management of the financial institution control while running their positions after going through the fit and proper test.

3. Methodology

This study could be a quantitative study, within which the hypothesis testing was done through the empirical knowledge testing. The hypothesis was supported in the literature review explained within the previous section. The analytical methodology used was the Structural Equation Model (SEM). Figure 1 depicts the SEM framework employed in this study. Circles in Figure 1 containing latent variable, namely leadership and fit and proper. Leadership (vision, language that is easy to understand, behavior as a role model, intellectual stimulation) and fit and proper (integrity and competence). GCG constructed by five indicators, which are transparency, accountability, responsibility, independence, and fairness. As a structural direction GCG tormented by all latent variables used on this framework, leadership and fit and proper.

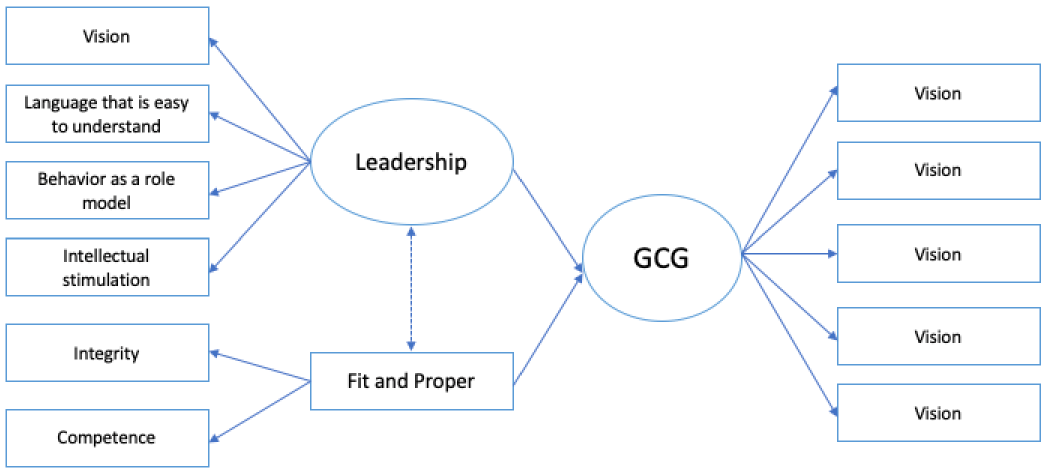

Figure 1. Framework

This examines analysed the use of the number one statistics acquired from questionnaires at once disbursed to the respondents. The item of to examine turned into all countrywide business banks running in Indonesia. The respondent on this examine turned into one individual from the board of administrators on the bank, wherein the overall respondents have been one hundred fifteen respondents. There are three hypotheses tested. H_1 is that the leadership has an effect on the fine of the GCG implementation in business banks in Indonesia. H_2 is fit and proper test take a look at that may slight the specific capability, variable which strengthens GCG implementation. Then for H_3 is fit and proper test take a look at that may slight the leadership variable which strengthens GCG implementation. Speculation checking out turned into executed through the empirical statistics.

4. Result and Discussion

The SEM evaluation on this paper become carried out the usage of STATE software. The version become going via numerous version match assessments, particularly Chi-squared check, comparative match index (CFI), and Tucker-Lewis index (CLI). Model match assessments are essential to apprehend how our version predicts the pattern variance-covariance matrix. STATE furnished version match indices check and our version indicating an excellent match because CFI and CLI price near 1. The CFI of our version is 0.826 and the CLI is 0.802. Chi-squared check displaying p-price of 0.000 approach that we reject the null speculation that our SEM version match no worse that the saturated version (SM), and finish that our SEM version suits worse than the SM.

Hypothesis 1 is to test the direct influence of leadership on GCG. The second hypothesis results with the hypothesis of the moderating effect of the fit and proper test on GCG. The moderation test can be tested for the direct effect of leadership on GCG, namely the b1 coefficient, the direct effect of the fit and proper test on GCG with the b2 coefficient, the effect of the fit and proper test that interacts with leadership, namely the b3 coefficient. Figure 2 reflects the hypothesis that was formed.

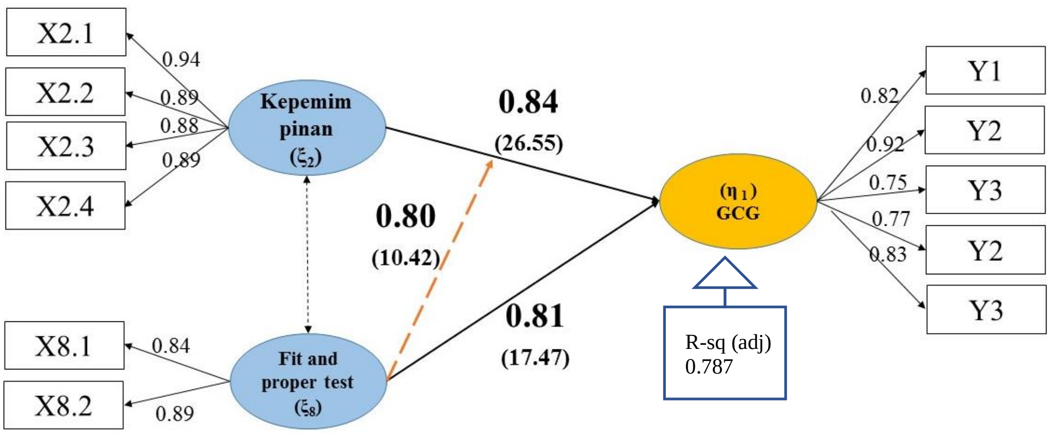

Figure 2. The Relationship between Leadership on GCG and the Conformity Test as a Moderation Variable

Table 1 shows the test results based on Figure 2, showing that the direct effect of leadership on GCG is significant and positive. The value of t count 26.55 is greater than t table alpha of 5% which is equal to 1.96. The positive coefficient of 0.84 reflects a positive relationship with GCG. The results are in accordance with the hypothesis that leadership has a positive and significant effect on GCG.

Table 3. Test of The Influence of Leadership Variables and The Moderating Effect of The Fit and Proper Test on GCG

Coefficient		T -Value	Conclusion
b1	0.84	25.55	significant
b2	0.81	17.47	significant
b3	0.80	10.42	significant

Note: Significant because t count is greater than t table (1.96)

The moderation effect test results show that the moderation type is Quasi moderation. Table 3 shows the type of moderating variable that can be identified through the direct influence coefficient of fit and proper test on GCG is 0.81 and significant, then the coefficient of influence of the fit and proper test that interacts with leadership is 0.80 statistically significant. Quasi moderation is a variable that moderates the relationship between the predictor variable and the dependent variable where the pseudo moderating variable also interacts with the predictor variable as well as being the predictor variable. The amount of R-square adjusted of 0.787 means that the leadership factor and the fit and proper test together can explain 78.7% of the implementation of GCG while the remaining 21.3% is explained by other factors outside the model.

The results of the model are in accordance with several studies including the relationship between leadership and GCG which is strengthened by research conducted by Manik (2014) which concluded that there is a significant influence between transformational leadership on good corporate governance. Othman and Rahman (2014) provide empirical justification that ethics, especially ethical leadership, is very important in the development of good governance practices. These findings shape corporate governance as a social process rather than an economic logic. The findings by Widjajanti and Sugiyanto (2015) concluded that transformational leadership can affect the implementation and implementation of good governance and give trust to society.

Research with similar results was also carried out by Van (2005), Nave (2006), Plowman et al., (2007) and Stahl (2007) who concluded that leadership is that the key to the eminent quality of GCG practice. The leader is responsible for the vision and quality of the company's GCG practices as well as all efforts to drive the organization. Stahl (2007) adds that company leadership has the capacity to direct staff in the right direction to realize the quality of GCG practices that are consistent with the company's philosophy and values. According to Rossouw (2009), trust in leaders is one of the factors that have contributed to the awakening of interest in corporate governance. There is an expectation that adherence to the principles and practices of good corporate governance will increase stakeholders' trust in the business.

5. Conclusion

This study shows that the leadership variable strengthens the quality of GCG practice. Good leadership can ensure good GCG quality practices as well. The fit and proper test variable is tested to strengthen the influence of the leadership variable on the standard of GCG practice. This study is helpful for observers and researchers, and that they will develop this study exploitation totally different methodologies, variables, data, or proxies. This study is useful for examining the behaviour of banks, monetary service authorities, or banking practitioners in watching GCG. The banking sector is very important within the economy as a result of it can trigger a crisis once bank governance isn't good. A healthy banking and following up to date technological developments will create a conducive econom

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