



# The 1<sup>ST</sup> UNICEB 2017

Garuda Plaza Hotel Medan, December 12th 2017



## THE MEASUREMENT MODEL OF GOOD CORPORATE GOVERNANCE MECHANISM AND RISK MANAGEMENT IN THE FORMATION OF FINANCIAL PERFORMANCE OF GO PUBLIC BANKING IN INDONESIA

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### ABSTRACT

The purpose of this study is to see the measurement model of GCG mechanism and risk management on the formation of financial performance of go public banking in Indonesia. Based on purposive sampling, 235 observations are conducted in the period of 2005-2014. The first exogenous variable is GCG implication which has indicators in the form of number of commissioners, number of independent commissioners, number of directors, number of audit committee, managerial ownership, and institutional ownership. The second exogenous variable is the risk management capability with indicator of *spread*, *Non Performing Loan (NPL)* and *Loan to Deposit Ratio (LDR)*. The endogenous variable is the banks' financial performance with indicators in the form of Return on Assets (ROA) and Return on Equity (ROE). This research uses data analysis technique of Structural Equation Modeling (SEM). The results of this study conclude that: (1) The overall measurement model can meet the assumption of convergent validity, which means that the model can reflect the latent variables; (2) The overall measurement model also shows that the three latent variables (GCG mechanism, risk management capability and performance finance) are different constructs because the correlation between the construct is smaller than 0.9; (3) The overall measurement model also meets the fit model because its goodness of fit index (GOF) qualifies the cut off value.

**Keywords:** GCG, risk management, financial performance