

# The Effect of the Implementation of Good Corporate Governance Principles and the Effectiveness of Internal Control System Disclosure of Environmental accounting and Its Implications On the Company Performance (Studies in State-Owned and Private Hospitals in Jakarta)

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## Abstract

This study aims to explain the integration of environmental accounting concepts in establishing good corporate governance in the public sector, especially hospitals to create public sector performance and provide empirical evidence in identifying variables to be considered in achieving good corporate governance and institutional performance. This study is in the realm of environmental accounting by using the public sector media, especially in hospital organizations. This research is an explanation (explanatory research) which intends to explain the causal relationship among the variables through hypothesis testing. The method of analysis used in this study is a regression analysis on the basis that the pattern of relationships among the independent variables in this study has the nature of causality. This analysis is used to determine the influence of the independent variables on the dependent variables. This study is expected to develop Environmental Accounting Theory generated from the analysis of the role of stakeholders in the public sector as a provider of health care services so that the health service to the community can take place accountably. For the government especially the Ministry of Health as the authorities of hospital administrations in Indonesia, this study will be as a source of information to formulate policies in bringing about accountability and improved quality of health care in hospitals, and for hospital management, as a reference to create good corporate governance as a form of accountability to the stakeholders. The results of the hypothesis testing are that the implementation of the principles of good corporate governance affects on the disclosure of environmental accounting, the effectiveness of the internal control system effects on the disclosure of environmental accounting, while the disclosure of environmental accounting does not affect on the company performance.

**Keywords:** The Principles of Good Corporate Governance, The Internal Control Systems, The Disclosure of Environmental Accounting, The Company Performance

## 1. Introduction

Indonesia participated in the World Trade Organization (WTO) in 1995. WTO regulates the world trade to be transparent, so that the competition can be conducted in a fair and professional way. By becoming a member of WTO, it means that Indonesia has to open the door to welcome industries from other countries. Hospitals as service industries are regulated through the General Agreement on Trade in Service (GATS). GAT makes the regulation of trade in services including hospitals and medical professional services. Currently, there are many foreign hospitals with modern facilities and infrastructure established in Indonesia. In line with the competition, the old paradigm which the patients need doctors or hospitals, has shifted to patients will choose doctors or hospitals that they expect to give the best service.

In situations such as this global competition, the implementation of good corporate governance is a necessity in order to build a strong and sustainable company. The implementation of good corporate governance can effectively improve the quality of financial reporting (Sarbanes-Oxley Act-2002). Since June 2010, UNEP has facilitated a meeting of international negotiations on legally binding instrument for mercury. A convention governing the use, trade, and disposal of mercury and mercury-containing wastes had been signed by 170 countries in 2013. Indonesia is one of the countries which participate in the meeting of these negotiations from the beginning. Mercury is a liquid metal at room temperature. The use of mercury in products and processes is widespread in many fields. In the health sector, the mercury is used in dental clinic for treatment, in the form of dental amalgam, thermometers and sphygmomanometers (blood pressure measuring devices). The use of mercury-containing equipment is very risky. Risk groups are children and women, either as direct care workers or patients.

The existence of Government Regulation No. 51 Year 1993 on Environmental Impact Analysis, is a new breakthrough that allows each hospital must conduct EIA (Hospitals with a capacity of over 400 beds) properly. And those who are not obliged to carry out an EIA in accordance with the circumstances of the Hospital but must meet the requirements of good environmental sanitation. Most hospital are in these categories.

Services can be managed socially. According to Laksono (2004) one of the important concepts in the development of the system of relationships involves doctors, hospitals and hospital administrators and the institution which regulates this is good corporate governance (GCG) for the hospitals. Implementation of good corporate governance is useful for (1) the improvement of the internal control system; (2) the increased efficiency to increase competitiveness, (3) protect the rights and interests of stakeholders; (4) increase the value of the company; (5) improve the efficiency and effectiveness of work governing board and CEO; (6) as well as improve the quality of governing board's relationship with the CEO (Sutojo & Aldrige, 2008). For Corporate Governance hospital can be set up in the Hospital Bylaws.

Based on the background described above, the subject matter of this study can be formulated as follows:

1. Does the implementation of the principles of good corporate governance have a positive effect on the disclosure of environmental accounting?
2. Does the effectiveness of the internal control system have a positive effect on the disclosure of environmental accounting?
3. Does the disclosure of environmental accounting have a positive effect on the company performance?

The results of this study are expected to provide the following benefits:

#### **Theoretical Aspects (Scientific):**

- 1). To contribute to the renewal concept (reconceptualization) of government policies and decisions of investors in the implementation of the principles of good corporate governance and the effectiveness of internal control systems as well as the disclosure of environmental accounting and the company performance in business decisions by the government and private investors.
- 2.) To provide additional resources to conduct advanced research in the same field and to complement the findings of the previous research.

#### **Practical Aspects:**

- 1). To provide additional information in the form of knowledge and reference of investors who intend to invest in health institutions and hospitals.
- 2). To provide input for the Government, especially the Ministry of Health regarding the consistency of the implementation of the Principles of Good Corporate Governance, Internal Control System Effectiveness and the importance of Disclosure of Environmental Accounting to the overall health aspects and the implications for the achievement of the company performance.

## **LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT**

### **The Principles of Good Corporate Governance**

The word "governance" is derived from the French "gubernance" Shark and Gillian in Siswanto Sutojo and Aldrige (2008:1), which means control. In Indonesian, translated as corporate governance or good corporate governance. The definition of corporate governance, the OECD and Aldridge Siswanto (2008:2) defines corporate governance as follows: "corporate governance is the system by which business corporation are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participant in corporation, such as the board, the managers, shareholders and other stakeholders and spells out of the rules and procedures and for making decision on corporate affairs. By doing this, it also provides the structure through which the company objectives are set, and the means of attaining those objectives and monitoring performance.

### **The Effectiveness of Internal Control System**

The definition of Internal Control Systems has undergone a change both in concept and components in accordance with the development of increasingly complex business world. In the early development, the internal control is defined as an internal check. Internal checks with the concept of similarity of the results by matching records from two or more parts. As revealed by Certified American Institute of Public Accountants (AICPA) quoted Moeller & Witt (1999; 81), the definition of Internal Control is as follows: "Internal control comprises the plan of organization and the coordinate methods and measures adopted within a business to safeguard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency, and encourage adherence to prescribed managerial policies"

Research Konrath (2002:70) mentions that the efficiency and effectiveness of the company's operations as controlling the activities (operational controls). Internal controls within an organization is promoting the achievement of the efficiency and effectiveness of the use of company resources, including personnel so that the company can achieve the optimal goal (Arens et al. 2006:270).

## The Disclosure of Environmental Accounting

Ling (2007) states that although there has been a rapid growth in the number of companies that perform environmental accounting disclosure, but the disclosure does not follow a certain standard so that there are variations in terms of place, the content, shape and length of the information disclosed.

Deegan (2002) states that the main motivation to develop environmental accounting is to provide a basis for improving environmental performance and financial performance as well. With the improvement of the financial performance, the company's overall performance can be increased. The information generated by the environmental accounting, especially the environmental cost information can help management to control costs in order to generate cost savings that can ultimately improve financial performance (Burritt, 2002).

## The Company performance

### The Corporate Performance Measurement with the Balanced Scorecard Approach

The idea of balanced scorecard article was first published in Robert S Kaplan and David P Norton in the Harvard Business Review in an article in 1992 entitled "Balanced Scorecard - Measures that Drive Performance". Furthermore Balanced Scorecard developed as a performance measurement system which enables the company executives to look at the company from different perspectives simultaneously. According to Kaplan and Norton (1996:66) Balanced Scorecard is defined as:

"..... a set of measures that gives top managers a fast but comprehensive view of the business...includes financial measures that tell the results of action already taken...complements satisfaction, internal processes, and the organization's innovation and improvement activities – operational measures that are the drives of future financial performance."

Research Larrinaga and Bebbington (2001) finds that by implementing environmental accounting, companies can make cost savings that can improve the financial performance. Likewise Elewa (2007) who finds that the implementation of environmental accounting can improve earnings growth by reducing annual production costs. Meanwhile, Hayden (1989) in De Beer and Friend (2006) adds that in addition through cost reduction, environmental accounting can also be used to show the potential of environmental investment beneficial to generate significantly financial benefits through avoidance of environmental liabilities.

Based on the description of the framework, it can be described in the following chart:

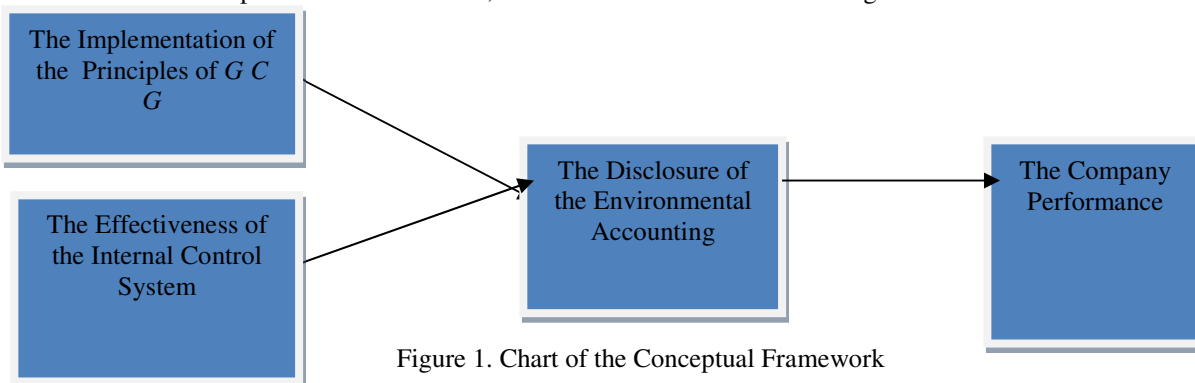


Figure 1. Chart of the Conceptual Framework

## Hypothesis

Based on the framework that has been stated previously, it can be compiled the following research hypotheses:

H 1: The Implementation of the Principles of Good Corporate Governance has a positive effect on the Disclosure of Environmental Accounting.

H 2: The Effectiveness of Internal Control Systems has a positive effect on the Disclosure of Environmental Accounting .

H3: The Disclosure of Environmental Accounting has a positive effect on the company performance.

## RESEARCH METHODS

This research is conducted through a field research survey on a sample of several members of a particular population that the data collection is done by using a questionnaire. Based on the research environment, a research is needed to test the hypotheses so that the data of the actual environment that the government and private hospitals whereas the unit of analysis in this study is a government or private hospital in Jakarta. The Respondent is the Head of Hospital.

The target populations as a whole unit of analysis in this study are all government and private hospitals in Jakarta, reaching to 75 hospitals (not including clinics). The sampling technique used was purposive sampling that samples are taken based on certain criteria. The criteria are 1) The hospital accreditation ratings A, B or C; 2) The hospital has its own sewage treatment plant (not out-sourcing); 3) The Hospital that discloses the

environmental accounting in its financial statements. Based on these criteria the qualified hospitals as the samples are 55 hospitals. This study is a descriptive-analytical. This study is conducted through surveys and has the grounded nature. This study uses appropriate statistical research paper for the purpose of causality either directly or indirectly, by using multiple regression models aimed at obtaining empirical evidence, examines and explains the effect of the implementation of the principles of Good Corporate Governance, the Effectiveness of the Internal Control Systems on the Disclosure of Environmental Accounting and its impact on the Company Performance.

## DISCUSSION

### Descriptive Statistics Analysis

The Implementation of the principles of good corporate governance is measured by five dimensions: (1) Responsibility, (2) Accountability, (3) Fairness, (4) Transparency and (5) Independence. The result of the calculation of the average score of the respondents regarding the implementation of the principles of good corporate governance shows that the implementation of the principles of good corporate governance in most hospitals in Jakarta is good.

The Effectiveness of the internal control system is measured through five dimensions: (1) Control environment, (2) Risk assessment, (3) Control activities, (4) Information and communication, and (5) Monitoring. The result of the calculation of the average score of the respondents on the effectiveness of internal control system shows that the internal control system in the majority of hospitals in Jakarta has been properly implemented or in other words, has been effective.

The Disclosure of Environmental Accounting measured through five dimensions : (1) The conventional cost, (2) The hidden costs potentials, (3) The contingent cost, (4) The connecting cost , and (5) The social costs. The result of the calculation of the average score of the respondents regarding the Disclosure of Environmental Accounting shows that the Disclosure of Environmental Accounting in the majority of hospitals in Jakarta has been properly implemented.

The Company Performance used in this study is the Balance ScoreCard, which is measured through four dimensions, namely (1) The consumer's perspective (customers and stakeholders), (2) The financial perspective, (3) The internal business process perspective and (5) The learning and growth perspectives . The result of the calculation of the average score of the respondents regarding the company's performance shows that the company performance in most hospitals in Jakarta is good.

### The Result of the Hypothesis Testing

Based on the results of hypothesis testing using regression analysis, it shows that the Implementation of the Principles of Good Corporate Governance and The Effectiveness of the Internal Control System have a significant influence on the Disclosure of Environmental Accounting in Jakarta hospitals either jointly or partially whereas The Disclosure of Environmental Accounting has no effect on the company performance in Jakarta hospitals.

## Figures & Tables

Model Summary<sup>b</sup>

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.444 <sup>a</sup>	.197	.166	4.18051	.197	6.266	2	51	.004	2.525

a. Predictors: (Constant), SPI, GCG

b. Dependent Variable: PAL\_1263

ANOVA<sup>b</sup>

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	219.005	2	109.502	6.266	.004 <sup>a</sup>
	Residual	891.310	51	17.477		
	Total	1110.315	53			

a. Predictors: (Constant), SPI, GCG

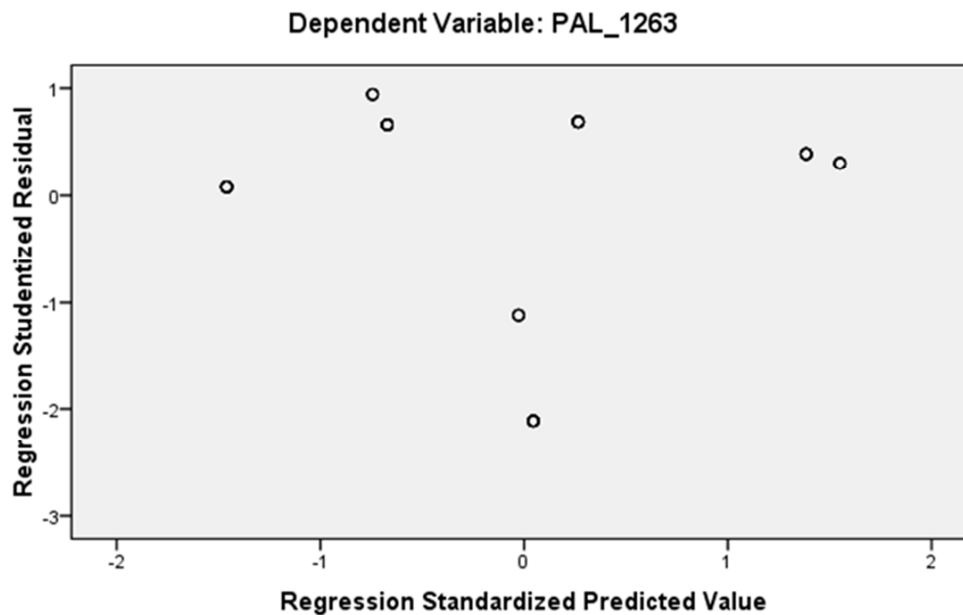
b. Dependent Variable: PAL\_1263

Coefficients<sup>a</sup>

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B		Correlations			Collinearity Statistics		
		B	Std. Error	Beta			Lower Bound	Upper Bound	Zero-order	Partial	Part	Tolerance	VIF	
1	(Constant)	64.267	5.236		12.274	.000	53.755	74.779						
	GCG	.390	.151	.687	2.588	.013	.087	.692	-.114	.341	.325	.223	4.476	
	SPI	-.375	.110	-.908	-3.422	.001	-.595	-.155	-.303	-.432	-.429	.223	4.476	

a. Dependent Variable: PAL\_1263

### Scatterplot



### 5. Conclusion

The implementation of the principles of good corporate governance has a significant influence on the disclosure of environmental accounting. The Effectiveness of the internal control system has a significant influence on the disclosure of environmental accounting.

The Disclosure of environmental accounting does not affect the company performance .

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