

## The Role of Good Corporate Governance (GCG) Implementation in Indonesian Company

Rita Syofyan<sup>1</sup>, Defriko Gusma Putra<sup>2</sup>

<sup>1</sup>Universitas Negeri Padang, Padang Indonesia, ✉ ritasyofyanunp@gmail.com

<sup>2</sup>Universitas Andalas, Padang Indonesia, ✉ defriko.gusma@gmail.com

### Abstract

The results of a recent study, show that a company is not optimal in terms of its control and management with only a management role, Good Corporate Governance (GCG) component is needed to maximize the good management of a company. There are two points in this regard: firstly, it is very important for shareholders' rights to get accurate information in a time-efficient manner and secondly the company is obliged to disclose everything related to company performance and transparency of all information data from company activities. From the many research results submitted by national and international research institutions, the results show that there is a lack of understanding of the main role of the implementation of GCG principles by companies in Indonesia. And there is an organizational culture that also influences the implementation of GCG in Indonesia.

**Keywords :** good corporate governance

### Introduction

The last few years the term GCG has been very well known in various parts of the world because it is an important instrument in the growth and profitability of the company for the long term, as well as a crisis in the Asia and Latin America region due to the failure of GCG implementation (Daniri, 2005). In 1998 many countries in Southeast Asia including Indonesia recovered from the crisis. Global business competition is not competition between countries but competition is more about the involvement of companies in those countries. The focus on Corporate Governance was also triggered by major scandals such as the Enron case, Worldcom, etc. The destruction of the company was due to a failure of strategy and fraud from top management and lasted long undetected due to the weakness of independent oversight.

From the explanation we can know that the management of the company is very important and in Indonesia the company has not been managed properly. According to the Chairperson of the Board of Commissioners of the Financial Services Authority on the okezone website in 2017 stated that Indonesia was ranked among the lowest in corporate governance in Southeast Asia. The survey from Booz Allen in 1998 showed the results that Indonesia gained value Corporate governance is very low, 2.88, lower than Singapore (8.93), Malaysia (7.72) and Thailand (4.89). The poor quality of GCG implementation is thought to have an impact on the economic crisis in Indonesia and also the results of research conducted by Mc Kinsey & Company in an online law site in 2000, Indonesia occupies the most distended position in the implementation of Good Corporate Governance based on a survey involving investors in Asia, Europe and America of five countries in Asia. Mc Kinsey & Company research in the same year found that almost all market values of Indonesian companies in the stock market were overvalued. From this there is dishonesty that may be set by those who get personal gain.

### Methods

The research method used is descriptive method. The ultimate goal of descriptive studies is to offer advantages or to illustrate relevant aspects of phenomena that are of interest to researchers, from the perspective of individuals, organizations or other perspectives. This will be very useful before considering the corrective steps to be taken in an organization. A qualitative approach is a process of research and

understanding based on methodologies that investigate social phenomena and human problems. Sugiyono (2010) This qualitative paradigm is a research paradigm that emphasizes understanding of problems in social life based on reality conditions or natural settings that are holistic, complex, and detailed.

## **Results and Discussion**

There are two theories relating to corporate governance, namely stewardship theory and agency theory. Stewardship theory is to trust and view that management can be trusted and act well in the interests of the public or shareholders. While agency theory is looking at management as an agent and will act consciously for its own sake and not as a fair party to shareholders. In many perspectives agency theory more reflects the realities that occur in the field, so that corporate governance is more directed towards agency theory by company management that is full of compliance with applicable rules and regulations.

Good corporate governance (GCG) is a system that controls and regulates companies in order to create added value (Value Added) for Stakeholders (Monks, 2003). There are a number of things that need to be understood in this regard, first, in obtaining correct and timely information regarding shareholders being a very important part. Second, transparent, accurate and timely disclosure of all company performance information, ownership structure and stakeholders is an obligation.

Good discussion on corporate governance is just a concern in Asia. In the United Kingdom this concept was only known in 1992 while developed countries which are incorporated in the developed countries of Western Europe and North America implemented a good corporate governance around 1999. By implementing a good corporate governance consistently it could have a positive impact on the quality of financial statements and could inhibit manipulation. the company's performance in the financial statements.

### **Basic GCG Principles**

There are five basic principles of good corporate governance, including:

1. Transparency, is an act of openness in conducting decision making activities and the relevance of information within the company
2. Accountability, is the clarity of systems and functions of accountability for effective management of the company.
3. Accountability, constitutes compliance and suitability in running a company professionally in accordance with applicable rules and regulations.
4. Independence, is the management of a company with professional activities without any conflicts of interest that affect company policy and in accordance with company regulations.
5. Fairness, Is a fair and appropriate attitude to fulfill the rights of shareholders in accordance with applicable rules and regulations.

Good Corporate Governance can be said to be a solution to improve company performance through the management and supervision of management performance and fulfillment of shareholder rights based on established standards in accordance with the provisions.

### **Phase Of GCG Application**

It is very important for the company in every stage of implementing GCG activities precisely and accurately and adapted to the conditions of the company itself. So that the implementation of GCG activities can be accepted by all components in the company and can obtain results that are expected by all parties.

### **Preparation Stage**

In this preparation there are three stages: first, awareness building, is the initial stage in building awareness of the importance of GCG and the involvement of all company components in its application. One way to carry out this stage is to use the services of an independent third party and experts in their field who come from outside the company. As in the form of training, group discussions, seminars and others.

Second assessment, is an effort to assess and measure the condition of the company against the current implementation of GCG. This stage needs to be carried out in order to be able to map the level of GCG implementation in the beginning and prepare the right infrastructure needs so that GCG implementation can run effectively. The third building manual, is the stage after the assessment that serves to see the company's ability to prepare manuals as a guideline in implementing GCG. This stage can also use the services of third parties who are independent and experts in their fields who come from outside the company. Manual guidelines for all company components such as:- Company GCG implementation, - GCG guidelines for each section of the company, Guidelines about behavior, Audit committee, Disclosure and transparency policies, Risk Management Policies and Frameworks and Roadmap of implementation

### **Phase Implementation**

This implementation phase is an advanced stage consisting of 3 important steps that must be carried out, namely:

1. Socialization, is the stage used to introduce all company components related to GCG implementation, especially related to the implementation of GCG. In this socialization a special team must be formed which is led directly by the president director or one of the directors appointed in the company.
2. Implementation, is a stage that is carried out in line with GCG guidelines based on the flow that has been prepared. Implementation should include management of change to oversee the process of change that arises as a result of GCG implementation.
3. Internalization, is the implementation phase in a long-term process that serves to introduce GCG in all company business processes. Based on this, it is expected that the application of GCG is not only in terms of compliance with regulations, but is embedded in the values of the company and reflected in all processes of the company's business activities.

### **Evaluation Stage**

The evaluation phase is an activity that needs to be carried out continuously to assess how effective the implementation of GCG has been carried out by using an independent third party to conduct an implementation audit and an assessment of the GCG implementation that has been carried out by the company. By carrying out the evaluation phase the company can find out the achievements of GCG implementation. Thus the existing gap can be corrected based on the recommendations given to the company.

### **Organizational Culture**

Organizational culture is a belief and values that become the main philosophy which is held firmly by members of the organization in carrying out or operating organizational activities (Nawawi, 2003). From the facts of Indonesia's downturn in terms of the management of the company that has been described previously, Indonesia needs an organizational culture.

Corporate culture is a new concept that developed from management science and the science of industrial and organizational psychology (Moeljono, 2005). From the field of science that has been delivered is more to discuss the concepts of culture and management science and organization to improve organizational performance. The discussion of business strategies, corporate strategy, SWOT analysis is an interesting discussion in the 1970s and management experts more research about the values that are at the core of the company's culture itself so that it can determine company performance.

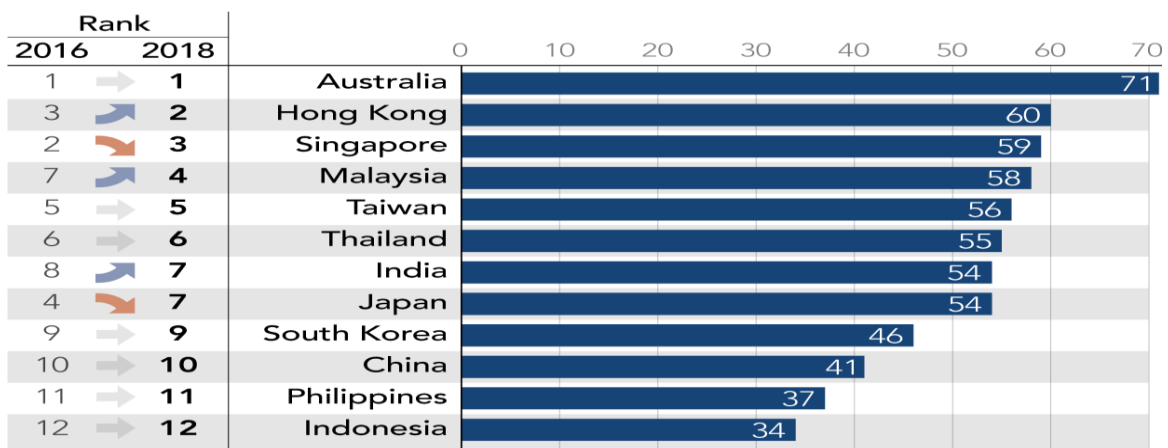
Management experts discussed more about change management (innovation), virtual capital and so on. With the development of the concept of organizational culture, innovation management and others, the organization is considered as a living creature or community as a goal to achieve the expectations desired by its creator. With this change in perspective, organizations that are considered community provide significant changes regarding the role of humans as part of the organization.

**Findings and Problems Of GCG Implementation in Indonesia**

After 1998 many countries in Southeast Asia, including Indonesia, recovered from the crisis. Global business competition is not competition between countries but competition is more about the involvement of companies in those countries. The focus on Corporate Governance was also triggered by major scandals such as the Enron case, Worldcom, etc. The destruction of the company was due to a failure of strategy and fraud from top management and lasted long undetected due to the weakness of independent oversight. From the explanation, we can know that the management of the company is very important and in Indonesia the company has not been managed properly. Research conducted by the Asia Development Bank (ADB) shows that the impact of the crisis that occurred in Indonesia is caused by several factors. First, the concentration of company owners is high. Second, the supervisory function of the board of commissioners is ineffective. Thirdly, the lack of transparency regarding company mergers and acquisitions procedures. Fourth, the dependence on external funding is too high. Fifth, lack of adequate supervision by creditors.

According to the Chairperson of the Board of Commissioners of the Financial Services Authority Muliamandalam on the okezone website in 2017 stated that Indonesia was ranked among the lowest in corporate governance in Southeast Asia (<https://economy.okezone.com>). The survey from Booz Allen in 1998 showed the results that Indonesia gained value Corporate governance is very low, 2.88, lower than Singapore (8.93), Malaysia (7.72) and Thailand (4.89). The poor quality of GCG implementation is thought to have an impact on the economic crisis in Indonesia. And also the results of research conducted by Mc Kinsey & Company in the online law website in 2000, Indonesia occupies the most distended position in the implementation of Good Corporate Governance based on a survey involving investors in Asia, Europe and America on five countries in Asia. Mc Kinsey & Company research in the same year found that almost all market values of Indonesian companies in the stock market were overvalued. From this there is dishonesty that may be set by those who get personal gain. In the Nikkei Asian Review website in December 2018 the ranking of corporate governance in Asia is shown as shown below:

**Ranking of corporate governance in Asia**



Score out of 100 points

Source: Asian Corporate Governance Association

**Picture 1 Ranking of Corporate Governance in Asia**

The results of the corporate governance ranking report in Asia by the Asian Corporate Governance Association show that Australia, Hong Kong and Singapore occupy the top position in the implementation of corporate governance while Indonesia occupies the lowest position in terms of implementing corporate governance. Factors causing the low ranking of Indonesia in the report are due to the low performance of companies in Indonesia and the implementation of corporate governance that has not been maximized compared to other countries in Asia. The explanation shows the fact that the implementation of GCG in

Indonesia still requires more attention from all parties so that the implementation of GCG can be applied in accordance with what should be

### **GCG Importation**

In the era of corporate governance reform, it still raises issues of concern for further study. Such as adjustments to various regulations and related laws. Likewise, the implementation of regional autonomy raises problems in the regulatory framework which tends not to be in accordance with the principles of awareness and compliance with the corporate governance. In implementing GCG in Indonesia, all elements of stakeholders must play an active role and participate.

The Indonesian government has made special efforts and embraced the business community to disseminate and implement GCG, among which the government's attention is the SOEs and the Capital Market. In BP BUMN in 1999 there were 3 agendas for implementing GCG in Indonesia, namely, setting national policies, perfecting national policies and developing private sector initiatives.

Then the GCG guidelines for the audit committee and independent commissioners emerged in 2004 and most recently was the Financial Services Authority Regulation No. 21 of 2015 regarding the application of guidelines for public company governance. The elements applied in implementing GCG in SOEs are required to have a Statement of Corporate Intent (SCI).

SCI is the company's commitment to shareholders in the form of agreements that lead to management strategies and efforts supported by a board of commissioners to manage the company. In the capital market, many regulations have been issued so that GCG principles can be implemented well. As all listed companies are required to implement GCG in order to increase the protection of the interests of shareholders.

The implementation of GCG is expected to improve the quality of discourse and can also encourage the application of checks and balances in the management environment in giving special attention to shareholders and other stakeholders. In addition to investor protection, regulations require the implementation of transparency and accountability in business activities between companies so as not to cause conflicts of interest.

### **GCG Socialization Through Regulations**

The Indonesian Stock Exchange is the most important part of the Indonesian economy, so it is important to introduce GCG regulations, especially in terms of listing. With this regulation, it is expected that companies listed on the Indonesia Stock Exchange can prioritize transparency so as to reduce the risks that may occur and can attract investors to invest in the Indonesian capital market.

The fact that occurs in the field indicates that companies in the Indonesian stock exchange have difficulty implementing GCG implementation consistently. This is because first, most of the companies listed on the Indonesian Stock Exchange are family-owned companies, making it difficult to accept other investors in their companies. This requires gradual socialization to make the parties aware of the responsibilities of other investors and other stakeholders. Second, dishonest company management practices that have been going on for a long time, making it very difficult to get rid of these habits. Based on information from the Indonesian stock exchange, compliance from companies listed on the Indonesian stock exchange in implementing the provisions has an independent commission and an audit committee of almost 100% and this can be achieved without the threat of imposition of sanctions. For this achievement it is not impossible that awareness of all parties to implement GCG consistently can be realized. In order to create a healthy business environment and have an impact on improving the Indonesian economy so that it can compete with other developed countries.

### **Holistic Approach**

There are two factors that cause the implementation of GCG in Indonesia is difficult to apply compared with other countries in Asia. First, the mechanism and practice of controlling Indonesian companies are still relatively weak. The power regime and a group of conglomerates still dominate the market in the

environment of SOEs and companies that have strong political influence. So that strategic decision-making policies are not based on financial performance and efficiency but rather are based on power structure relations and interpersonal relationships. Secondly, the criminal acts of corruption that occurred in Indonesia are classified as very bad both in government institutions and judiciary institutions which should be an example in correct law enforcement. Therefore a serious effort from the government is needed to minimize practices that are not in line with the implementation of the GCG. In some countries in Asia, there is a direction to press the importance of strengthening market potential and contingencies which are based on international standards. From this, Indonesia can learn seriously from other countries.

In implementing GCG implementation, the World Bank has grouped in the policy recommendation of ROSC has grouped several recommendations including:

1. Minority shareholders are given the right to vote in the election of commissioners and board of directors without violating the one share one vote rule.
2. Suggestions are given to all public companies to determine the nomination and remuneration committee. Guidelines for the implementation of this matter are regulated by BAPEPAM LK and IDX.
3. Recommendations are given to companies to adopt international standards in reporting financial performance such as IFRS.
4. Steps in protecting the rights of minority shareholders.
5. Improve coordination and supervision of BAPEPAM LK and IDX by developing resources and improving information technology.
6. Strengthening legal responsibility for accountants, especially those dealing with third parties in case of fraud or intentional mistakes.
7. Speed up the deadline for submitting company annual reports.
8. Confirmation of the rights and accountability of independent commissioners whose roles are equated with commissioners.
9. Establish guidelines on the independence of roles, obligations and accountability for the board of commissioners.
10. Formulate clear transactions to avoid conflicts of interest that are regulated in the company's code of conduct.

## **Conclusions**

Good Corporate Governance (GCG) is a system that controls and controls a company in order to create added value for all stakeholders. This GCG system focuses on two things, first, in obtaining correct and timely information that shareholders are a very important part. Second, transparent, accurate and timely disclosure of all company performance information, ownership structure and stakeholders is an obligation.

There are five main principles needed in implementing GCG, namely, transparency, accountability, responsibility, independence and fairness. These five principles are very important because the implementation of GCG consistently and effectively can improve the quality of financial statements and also to prevent any irregularities in business activities that result in the presentation of financial statements that are not in accordance with the actual state of the company.

Based on various surveys and research from independent institutions, the results show that the implementation of GCG in Indonesia is still very poor. From this we can conclude that corporate in Indonesia has not been managed properly and properly so that special attention is needed from various parties in the implementation of GCG in order to have an impact on improving the ability of Indonesia's economy in the future.

## **References**

- Bank World Corporate Governance Country Assessment. (2005). Republic of Indonesia, Jakarta.  
Chinn, Richard. (2000). *Corporate Governance Handbook*, Gee Publishing Ltd. London.

- Corporate Governance dan Etika Korporasi, Kantor Menteri Negara Pendayagunaan BUMN/Badan Pembina BUMN. (1999).
- Daniri Mas Ahmad. (2005). *Good Corporate Governance :Konsep dan Penerapannya di Indonesia*. Ray Indonesia, Jakarta.
- Hadari, Nawawi. (2003). *Manajemen Sumber Daya Manusia untuk bisnis yang Kompetitif*, Gajah Mada University Press. Yogyakarta.
- Moeljono, Djokosantoso. (2005). *Good Corporate Culture sebagai inti dari Good Corporate Governance*, Elex-Gramedia. Jakarta.
- Monks, Robert A.G, dan Minow, N. (2003). *Corporate Governance 3<sup>rd</sup> Edition*, Blackwell Publishing.
- Thomas. S Kaihatu. (2006). *Jurnal Manajemen Dan Kewirausahaan*, Vol.8, No. 1: 1-9