

An Implementation of Good Corporate Governance in Rural Bank

Abel Tasman¹, Fifka Amelia Susanti²

¹Universitas Negeri Padang, Padang Indonesia, ✉ abeltasman@fe.unp.ac.id

²Sekolah Tinggi Ilmu Ekonomi Sumatera Barat, Pariaman, Indonesia, ✉ fifkaamelia02@gmail.com

Abstract

The Rural bank is a formal microfinance institution that provides services to rural and suburban communities, including managers of Micro, Small and Medium Enterprises (MSMEs). The existence of rural banks can sustain the regional economy and create regional economic growth. As a financial institution that plays a role in the regional economy, in practice, there needs to be good Good Corporate Governance (GCG) which will ultimately bring rural bank's performance to be better. The purpose of this study is to assess the implementation and practice of Good Corporate Governance (GCG) in one of the rural banks in the Pariaman City, West Sumatera, namely PT BPR La Mangau Sejahtera. This research uses a mixed-method in the form of qualitative and quantitative methods. Qualitative data were obtained through interviews with rural bank's directors. Quantitative data were obtained by distributing questionnaires to BPR directors and also sourced from financial statements. The data analysis technique used is descriptive quantitative. The results of this study indicate that the implementation of GCG at PT. BPR La Mangau Sejahtera is included in the good category but needs to be increased in the future. It is recommended to PT.BPR La Mangau to further enhance its GCG because, by the end of 2019, the financial services authority (OJK) will implement regulations that require rural bank with core capital of under Rp 3 billion to merge. This can be anticipated if PT. BPR La Mangau Sejahtera can increase its core capital to a minimum of Rp 3 billion. Therefore, with an increase in good corporate governance, it is expected that PT.BPR La Mangau Sejahtera can achieve better performance.

Keywords: rural bank, GCG, OJK, core capital

Introduction

Rural Bank is a formal microfinance institution that currently has a large role in improving the regional economy and even the national economy. The existence of BPR is regulated in Law No. 7/1992 concerning Banking and amended by Law No. 10 / 1998. As a financial institution, BPR provides services to rural and suburban communities, including managers of Micro, Small and Medium Enterprises (MSMEs). In this case, the government hopes that BPR can contribute to the development of MSMEs, given that MSMEs are the government's mainstay in formulating strategies for national economic recovery [1].

As a business entity, rural bank certainly hopes to be able to achieve its goals, namely the achievement of company performance. The success of a business entity (company) in carrying out business activities in order to achieve company goals will certainly be greatly influenced by how the company is able to carry out good governance (good corporate governance). Good Corporate Governance (GCG) can be defined as a set of regulations governing the relationship between shareholders, company management, creditors, government and employees as well as other internal and external stakeholders relating to their rights and obligations or in other words a system that regulate and control the company [2].

As one of the business entities, BPRs are required to have good corporate governance. The Financial Services Authority (OJK) has required BPRs to implement GCG starting in 2017 listed in Decree number 4 / POJK.03 / 2015. OJK hopes that in implementing GCG practices, BPRs do not consider it as an obligation but consider it as a necessity. Thus, BPR will grow, develop healthy and sustainable [3]. If the implementation of

GCG can run effectively and efficiently, then all company activities can run well, so that matters relating to financial and non-financial performance also improve [4].

Good Corporate Governance can create a supportive environment, among others in the form of banking efficiency, alleviate financial risks and increase systemic stability. Good Corporate Governance tends to reduce the cost of capital, this means the risk faced is lower so that it reflects the readiness of shareholders to receive higher returns [5].

The purpose of this study is to assess Good Corporate Governance in rural banks in the City of Pariaman, West Sumatra. BPR which is the object is PT.BPR La Mangau Sejahtera. The results of this study are in the form of GCG rating which is expected to be used as a guideline for research objects to develop BPR in the future.

Methods

Research sites

The sample of this study is one of the conventional rural banks, PT. BPR La Mangau Sejahtera, located in Pariaman City. The research began in 2019, starting from data collection, data processing, data analysis, data interpretation to making conclusions and giving advice and publication.

Research Approach

This research is a case study. This research uses a descriptive quantitative research design.

Data Collection Technique

The data used in this study are primary and secondary. Primary data obtained through interviews and questionnaires. Secondary data obtained through rural bank publication reports on www.ojk.go.id

Instrument Grilles

For questionnaires that measure GCG refer to PricewaterhouseCoopers (PwC) and Forum For Corporate Governance in Indonesia (FCGI). In assessing GCG, there are 5 indicators used, namely: (1) Shareholder rights (weighting 20%), (2) Corporate Governance Policy (weighting 15%), (3) Corporate Governance Practices (weighting 30%), (4) Disclosure (weighting 20%) and (5) Inspection (Audit) (weighting 15%).

GCG measurement results will be stated in 4 categories, namely:

Table 2. Value and Category

Number	Value	Category
1	0-49	Below standard
2	50-59	Meets the standard, but needs to be improved in the future
3	60-80	Good, but needs to be improved
4	81-100	Very Good

Data analysis technique

This research uses descriptive quantitative data analysis techniques.

Results and Discussion

PT. La Mangau Rural Bank is one of the Rural Banks located in Kota Pariaman. This BPR is managed by one commissioner and two directors. Based on the OJK publication report, in the end of 2018, PT. BPR La Mangau Sejahtera has core capital of Rp 2,094,367,000 and total assets of Rp 6,393,566,000.

In this study, the assessment of Good Corporate Governance refers to the standards set by Pricewaterhouse Coopers (PwC) and the Forum For Corporate Governance in Indonesia (FCGI). The results can be illustrated in the table below:

Table 3. Summary of Good Corporate Governance Assessment Results

Number	Assessment	Company Score	Weight	Weighted score
1	Shareholder Rights	56	20%	11.2
2	Governance Policy	90	15%	13.5
3	Governance Practices	101	30%	30.3
4	Disclosure	34	20%	6.8
5	Audit	8	15%	1.2
	Total Score	289	100%	63.00

Based on the results of processed questionnaire data provided by the Director of PT. BPR La Mangau Sejahtera, shareholder rights score of 56 and weighted score of 11.2 %, corporate governance policies score 90 and weighted score 13.5 %, corporate governance practices score 101 and weighted score 30.3 %, disclosure get score 34 and weighted score 6.8 % and audit get a score of 8 and a weighted score of 1.2 %. Overall, the total score obtained by PT.BPR La Mangau is 63% which is included in the good category, but can be increased in the future.

Overall, the assessment of Good Corporate Governance at PT.BPR La Mangau Sejahtera is included in the good category, but can be increased in the future. This means that there is still hope and opportunity for PT. BPR La Mangau Sejahtera to achieve the assessment of Good Corporate Governance in the very good category. By paying attention to the scores of each indicator and focusing on increasing the lowest scores, this course will motivate PT. BPR La Mangau Sejahtera can continue to improve its Good Corporate Governance assessment.

The importance of implementing Good Corporate Governance in rural bank has been assertively stated by the Financial Services Authority (OJK) through the Financial Services Authority Regulation No. 4 / POJK.03 / 2015 concerning the Implementation of Governance for Rural Credit Banks. One of the determinants of GCG implementation is the fulfillment of core capital according to OJK rules.

Based on OJK Regulation (POJK) 5 / POJK.03 / 2015, regarding the Minimum Capital Requirement and Ease of Rural Bank Core Capital, Rural Bank are required to meet a minimum core capital of Rp 3 billion in the end of December 2019 and Rp 6 billion in the end of December 2024. If the rural bank can't fulfill this regulation, there are two options that can be done by rural bank. First, rural bank can consolidate with other rural bank. Second, rural bank can increase core capital so that it is achieved in accordance with OJK regulations.

In addition to having to consolidate or mean core capital, rural bank that have a core capital of less than Rp 3 billion are also not permitted to distribute dividends. The profit obtained by the rural bank will be retained and distributed to increase core capital to reach Rp 6 billion. So a rural bank that can distribute dividends is a rural bank that has a minimum core capital of Rp. 6 billion.

At present, insufficient core capital of at least Rp 6 billion is a common problem faced by every rural bank, including PT. BPR La Mangau Sejahtera. The assessment of Good Corporate Governance of PT. BPR La Mangau Sejahtera which is categorized as good, can actually be increased if sufficient core capital is in accordance with OJK regulations. With sufficient core capital in accordance with OJK rules, it will automatically be able to increase the score of each GCG indicator and ultimately increase overall GCG score.

Conclusion

PT. BPR La Mangau Sejahtera has a Good Corporate Governance assessment categorized as good, but needs to be improved. At the end of 2018, core capital owned by PT BPR La Mangau Sejahtera was Rp 2,094,367,000. It is expected that by the end of 2019, PT BPR La Mangau Sejahtera will be able to meet a core capital of at least Rp 3 billion and by the end of 2024, it will be able to meet a core capital of at least Rp 6 billion in accordance with OJK regulations. It is hoped that by fulfilling the regulations regarding core capital, the assessment of PT La Mangau Sejahtera's Good Corporate Governance can also be improved

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