

AN EVALUATION OF GOOD CORPORATE GOVERNANCE IMPLEMENTATION

(Case Study in PT. Pelabuhan Indonesia III (Persero) Surabaya)

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ABSTRACT

This study aimed to evaluate the application of Good Corporate Governance in PT. Pelabuhan Indonesia III (Persero) Surabaya which has been implemented since 2003. A case study is used as a method and design to answer the research questions. Data collection methods used in the study are interviews, observation, and documentation. This study used descriptive and qualitative analysis to interpret the data through GCG scorecard results on the company. The results of this study indicate that: (1) The application of good corporate governance principles of which include transparency, accountability, responsibility, independency and fairness in the PT. Pelabuhan Indonesia III (Persero) Surabaya has implemented well although there are some indicators that have not been applied. One of them is the lack of a whistle blowing system on corporate website. (2) There is no significant difference in GCG Scoring based on FCGI and assessment by external auditor.

Key words: *Good Corporate Governance, Scorecard GCG*

Research Background

Corporate governance has always been a controversial topic in various fields and also has a consequent in one of the academic, too. Many authors tried to define this concept from various perspectives, but unfortunately there is no a unique definition, yet. Moreover, different models of corporate governance have developed in some different long time. Thus, corporate governance became one of the most debated topics of discussions all around the world. It was proven that the academic environment interested on this research topic all the time.

The current global competition situation recently, good corporate governance is a must in order to build a strong state and a sustainable company. Good Corporate Governance is a practice management company's compliance with amandate to consider the balance of interests of all stakeholders. The implementation of good corporate governance is a resource management company that is expected to be an efficient, effective, economical and productive that always oriented on the company's goal and pay attention to the need for all stakeholders that focused on the transparency principles, accountability, responsible, integrity and fairness. Good

Corporate Governance concept proposed in order to achieve more transparent corporate governance for all parties concerned. Setting and implementing good corporate governance requires commitment from all levels of the organization, and begins with the determination of basic policies and procedures that must be adopted by the top management and the implementation of the rules that must be obeyed by all parties in it.

GCG concept itself originally started from the development of the corporate system in the UK, Europe and the United States around 1840. For the first time, the term of corporate governance introduced by the Committee Cadbury Tjager (2003, h.24) that defines corporate governance as: “*A set of rules that define the relationship between shareholder, managers, creditors, the government, employees and other internal and external stakeholders in respect to their rights and responsibilities*”. This definition explains of a set of rules relating to shareholders, managers, creditors, government, employees and the stakeholder both internal and external.

In Indonesia, the practical application of GCG program began in the post-crisis recovery loans or grants that began in 1997-1998 that had sought by the government in cooperation with the Parliament and the private sector and international financial institutions or the International Monetary Fund (IMF) to help out of the economic crisis with the various steps in the Letter of Intent (LoI) which includes requires the government to restructure the economy by improving the national banking sector through recapitalization and restructurisation and privatization of “*Badan Usaha Milik*

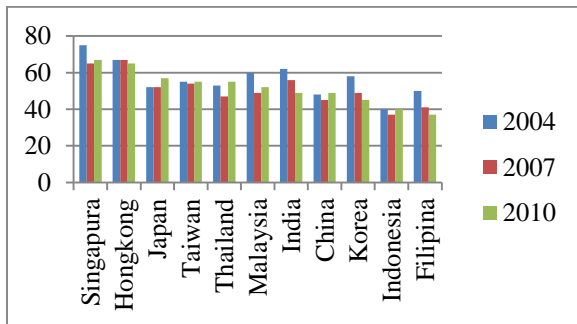
Negara (BUMN)”, including the companies which have strategic value dealing with the authority on the water, energy, transport and infrastructure commodities.

In this case, the Office of Indonesia State-Owned Enterprises Ministry has issued a decision that requiring state companies to apply the principles of good corporate governance. It is stated in the Decree of the Minister of State. KEP-117/M-MBU/2002 on the implementation of good corporate governance practices in “*Badan Usaha Milik Negara (BUMN)*”, which was refurbished by the Minister’s Regulation of BUMN Number: PER - 01/MBU/2011 dated August 1, 2011 on the Application of Corporate Governance good (good Corporate Governance) at BUMN. The regulation was followed up by the Secretary of State Enterprises Minister Decree No. SK-16/S.MBU/2012 dated June 6, 2012 on indicators / parameters Assessment and Evaluation of the Implementation of Good Corporate Governance (GCG) at BUMN.

However, in implementing the policy would not be easy. This is reflected on the quality of corporate governance in Indonesia is still relatively low. Based on a survey of the *Asian Corporate Governance Association (ACGA)*, Indonesia has 37% value in 2007 and has 40% value in 2010. Though Indonesia is at the bottom in terms of the implementation of GCG, it does not mean that the practice is not suitable to be re-used. Nevertheless GCG implementation is still needed because it is one of the successful keys to grow provitable in the long term. In addition, to create advanced good company, able to compete, dynamic and professionally managed, especially in “*Badan Usaha Milik Negara (BUMN)*”.

TABLE 1.1

The Comparison of *Good Corporate Governance*



Source: ACGA (Asian Corporate Governance Association, www.acga-asia.org)

Based on the phenomenon above, the researcher would like to discuss the topic with a focus on a company which is apply the principles of Good Corporate Governance (GCG) and measure the Good Corporate Governance by using GCG Scorecard based on FCGI (Forum for Corporate Governance in Indonesia) version, in order to understand more about how the real implementation on government regulations on a company. The discussion makes Good Corporate Governance (GCG) as an issue that never goes out to continue to be studied because an understanding of the practice of Good Corporate Governance (GCG) continues to evolve over time. Each company has its own freedom in implementing good corporate governance (GCG). This study will be obtained the latest information regarding the application of the principles of Good Corporate Governance (GCG) at PT. Pelabuhan Indonesia III (Persero) Surabaya.

LITERATURE REVIEW

Good Corporate Governance

Forum for Corporate Governance in Indonesia / FCGI define it as a set of rules that define the relationship between shareholders, management, creditors, government, employees and stakeholders of other internal and external with respect to the rights and obligations, or in other words systems that direct and control the company.

The definition of good corporate governance based on the Ministry of State-Owned Enterprises (Kementerian BUMN) No. PER-01/MBU/2011 is “*the principles that underlie the process and enterprise’s management mechanism based on the laws and business ethics.*” Good corporate governance is a system that must guarantee the fulfillment of company’s obligation to its shareholders and all stakeholders as well as must be able to cooperate with stakeholders in achieving corporate’s goals. Not well-arranged corporate relations with stakeholders can lead to several obstacles and interference in the course of the company's operations

The key to achieve good corporate governance within a company is the effective functioning organs of a company that guarantee the quality and the integrity to achieve its goals and meet the interests of all stakeholders.

GCG implementation is also expected to support government's efforts to uphold good corporate governance generally in Indonesia. Currently, the government is trying to implement good governance government in government bureaucracy in order to create a clean and respectable bureaucratic system.

It can be concluded that good corporate governance is a transparent system in a company including the principles which underlie the process management process of a company that aim to limit the emergence of possible corporate assets' misuse.

The Principles of Good Corporate Governance

Transparency

Companies should provide the information on time, adequate, clear, accurate, comparable and easily accessible to stakeholders and in accordance with their rights.

Accountability

Companies should establish details of the duties and responsibilities of each organ of the company and all the employees that are in line with the vision, mission, business objectives and strategy so that the company management can run effectively.

Responsibility

Companies should implement social responsibility such as concerned about the environmental and community around the company by making adequate planning and implementation.

Independency

This term implies a professionally managed with no conflict of interest and influence or pressure from any parties that does not comply with the legislation in force.

Fairness

The company should give an opportunity for stakeholders to speak out their opinion for the company's interest and also open the access to information in accordance with the principle of

transparency within the scope of their respective capacities.

GCG Scoring

There are five aspects that are assessed in the framework of corporate governance assessment by FCGI version (Forum for Corporate Governance in Indonesia, www.fcgi.or.id), as follows:

1. The right of shareholders (score 20%)
The company will get a score of up to 20% when the company already:
 - a. Held a General Meeting of Shareholders or "*Rapat Umum Pemegang Saham (RUPS)*" within 6 months after the end of the financial year, in accordance with article 65 paragraph 2 of the Law Company Limited.
 - b. Submits to shareholders notice of the Annual Meeting of Shareholders at least 28 days before the *RUPS* is held.
 - c. Encourages shareholders to attend the *RUPS* and take advantage of their voting rights.
 - d. Provides a good opportunity to shareholders to submit questions at the *RUPS*.
2. GCG Policies (score 15%)
The company will get a score of up to 15% when the company already:
 - a. Has written rules on corporate governance which explain the rights of shareholders, duties and responsibilities of the Board of Directors and Board of Commissioners.
 - b. Provides access for the public to know the company's policies regarding with public investors.
 - c. Forms an organ that is responsible (e.g. BOC) for ensuring that the company complies with the corporate governance rules that have been set.

- d. Has code of conduct or ethics for employees in written form.
- e. Informs and implements the code of conduct or ethics.
- 3. Practice of GCG (score 30%)
The company will get a score of up to 30% when the company already:
 - a. Board of Directors held a regular meeting regularly with the Board of Commissioners.
 - b. There is a strategic plan and operational plan that gives instructions to the Board of Directors and the Board in carrying out their duties and functions.
 - c. Board of Directors and Board of Commissioners have been trained or have the right background, which allow them to perform their tasks.
 - d. Members of the Board of Commissioners and Board of Directors are not involved in a conflict of interest.
 - e. There is a system of performance evaluation of the Board of Directors and Board of Commissioners.
- 4. Disclosure (score 20%)
The company will get a score of up to 20% when the company already:
 - a. Provides equal access for shareholders and financial analysts.
 - b. Gives a proper explanation of the risks involved.
 - c. Discloses the remuneration of the Board of Directors and Board of Commissioners correctly.
 - d. Reveals related party transactions.
 - e. Presents the results of the financial and management performance analysis via the internet.
- 5. Audit (score 15%)
The company will get a score of up to 15% when the company already:
 - a. Has an effective internal audit.
 - b. Has been audited by an independent public accountant.

- c. Has an effective audit committee.
- d. Develops effective communication between internal audit, external audit and the audit committee.

RESEARCH METHODOLOGY

This study used a qualitative approach because this study is in one particular setting that intends to investigate and understand the phenomenon: what happened, why it happened and how it happened and aim to understand the social situation, event, role, and group interaction.

The method used is descriptive study. Descriptive analysis is a method of analysis that describes a situation objectively, so as to obtain a settlement of the problems faced by the company. This method explains, analyzes, and classifies the various existing survey techniques or by using a case study approach. The result of the data analysis in this study is an examination of the situation under study presented in the form of a narrative description.

The conclusion of this descriptive research is a description that interprets existing data, for example about the situation been experienced before. This study also uses the comparative method, the method used in drawing conclusions from observed facts and the truth has been tested by comparing the theory with the data which is a general truth in the field.

Methods of data collection conducted by researcher in this study are:

1. Observation

Observation is a technique to obtain primary data by directly observing the objects. This technique is suitable for observing a process, condition, event or human behavior. There are two types of observation, which are participant

observation and non-participant observation. Participant observation is when a researcher participates in the activities of the group being observed in the same manners as its members, with or without their knowing that they are being observed. Whereas non-participant observation is when a researcher does not get involve the activities of the group but remain as a passive observer, watching and listening their activities and drawing the conclusions.

This research used both a participant observation and non-participant observation. It has a purpose to capture the activities that support constructing the data validity of this study. In participant observation, the researcher followed the Good Corporate Governance's discussion forums with the external auditor and had a chance to do a discussion with the forums' participants. Besides, in non-participant observation, the researcher only watched and listened the seminar about Good Corporate Governance with the subsidiaries company of PT. Pelabuhan Indonesia III (Persero) Surabaya. The observation was conducted in the area of Company Secretariat of PT. Pelabuhan Indonesia III (Persero) Surabaya.

2. Interview

Interview is a two-way communication process to get the data from the respondents. Interviews can be implemented through either personal interviews or telephone interviews. Cooper and Schindler (2006:253) said that the interview was the primary data collection technique in qualitative methodologies. In this research, interview method used is an open standard interview which is a structured interview. Structured interviews in this study begin with its own set of issues and questions to be asked. The questions were prepared based on the problems in the study design. The main points used as the

basis set is very structured questions. The interview in this study was conducted on November, 17th2014 at PT. Pelabuhan Indonesia III (Persero) Surabaya. The interviewees in this study are the Assistant Corporate Secretary of Institutional Relations and Monitoring GCG, Field of Supervisors SPI, Head of Goods and Services Procurement, Accounting and Financial Reporting Staff at PT. Pelabuhan Indonesia III (Persero) Surabaya and External Auditor from BPKP Jawa Timur. The results then are recorded as well astranscribed in order to ease the process of data analysis.

3. Documentation

Information is obtained through the facts stored in the form of a company typically archive, regulatory directors and so on. Documents obtained by the researcher have to be processed by the researcher itself in order to get useful and important information associated with the company.

This research used documentation as one of the data collection method. Documents of annual report, structure of organization, company's standards or policies and official website are gathered to complete the data or findings which can answer the research questions.

RESULT AND DISCUSSION

Transparency

Transparency of the financial system in PT. Pelindo III (Persero) is always shown in detail and openly. PT. Pelindo III (Persero) always publishes their annual report and can be downloaded online.

In terms of employee recruitment and procurement of goods and services, there are done through the website and printed media such as newspapers. This is

done to provide fair and equal information to general public and relevant parties.

Accountability

Accountability within a company should be maintained and accounted PT. Pelindo III (Persero) has implemented Whistle Blowing System in the company. General definition of Whistle Blowing Systems (WBS) is a system that facilitates the whistle-blower or a person who first reports an act that is against the law, especially about corruption, collusion and nepotism (KKN) in the organization or institution where he/she works. The role of whistle-blowers is very important and will greatly assist in the disclosure of the fraud cases that disobey the rules and laws implementation that take place in the institution.

Responsibility

The activity of PT. Pelindo III (Persero) is continuously managed by

considering the awareness on responsibility towards the environment and surrounding communities that are indicated by an active involvement in carrying out its Corporate Social Responsibility (CSR).

Independency

PT. Pelabuhan Indonesia III (Persero) always try not to break the law even if it is for decision-making purpose. In making a decision, the company has always demanded the board of directors to make decisions in a professional manner.

Fairness

PT. Pelabuhan Indonesia III (Persero) always supports the directives issued by the government for the sake of rules that serve to align business activities in Indonesia in many ways, especially in this case is the application of the principles of Good Corporate Governance (GCG).

GCG Scoring at PT. Pelabuhan Indonesia III

No	Framework of Corporate Governance	Remarks	Explanation	Score
1.	The Right of Shareholders (score 20%):			
	a. A General Meeting of Shareholders or “ <i>Rapat Umum Pemegang Saham (RUPS)</i> ” within 6 months after the end of the financial year, in accordance with article 65 paragraph 2 of the Law Company Limited.	v	Implemented	5
	b. Submit to shareholders notice of the Annual Meeting of Shareholders at least 28 days before the <i>RUPS</i> is held.	x	N/A	-
	c. Encouraging shareholders to attend the <i>RUPS</i> and take advantage of their voting rights.	x	N/A	-
	d. Providing a good opportunity to	x	N/A	-

	shareholders to submit questions at the <i>RUPS</i> .			
2.	GCG Policies (score 15%):			
	a. Having written the rules on corporate governance which explains the rights of shareholders, duties and responsibilities of the Board of Directors and Board of Commissioners.	v	Implemented	3
	b. Provide access for the public to know the company's policies regarding public investors.	v	Implemented	3
	c. Forming an organ that is responsible (e.g. BOC) to ensure that the company complies with the corporate governance rules that have been set.	v	Implemented	3
	d. Have rules of conduct or ethics for employees in writing.	v	Implemented	3
	e. Inform and implement the rules of conduct or ethics.	v	Implemented	3
3.	Practices of GCG (score 30%):			
	a. Board of Directors held a regular meeting regularly with the Board of Commissioners.	v	Implemented	6
	b. There is a strategic plan and operational plan that gives instructions to the Board of Directors and the Board in carrying out their duties and functions.	v	Implemented	6
	c. Board of Directors and Board of Commissioners have been trained or have the right background, which allows them to perform their tasks.	v	Implemented	6
	d. Members of the Board of Commissioners and Board of Directors are not involved in a conflict of interest.	v	Implemented	6
	e. There is a system of performance evaluation of the Board of Directors and Board of	x	Being prepared for Key Performance	-

	Commissioners.		Indicators for Individuals	
4.	Disclosure (score 20%):			
	a. Provide equal access for shareholders and financial analysts.	v	Implemented	4
	b. Give a proper explanation of the risks involved.	v	Implemented	4
	c. Disclose the remuneration of the Board of Directors and Board of Commissioners correctly.	v	Implemented	4
	d. Revealing related party transactions.	v	Implemented	4
	e. Presenting the results of the financial and management performance analysis via the internet.	v	Implemented	4
5.	Audit (score 15%):			
	a. Have an effective internal audit.	v	Implemented	3,75
	b. Audited by an independent public accountant.	v	Implemented	3,75
	c. Having an effective audit committee.	v	Implemented	3,75
	d. Develop effective communication between internal audit, external audit and the audit committee.	v	Implemented	3,75
Total Score				79

CONCLUSIONSAND SUGGESTIONS

Conclusions

Transparency

The principle of transparency has been implemented in PT. Pelindo III (Persero). The financial statements are always shown in detail and open for public access. The company has also been officially published the annual report so that relevant parties can download the report online through the Internet. Moreover, the principle of transparency is also applied to the recruitment of new employees. Part

Goods and Services Procurement bureau also arranges an open bidding auction. The information provided by the Head of Goods and Services Procurement is delivered to be publicly accessible through the newspaper and the internet.

Accountability

PT. Pelindo III (Persero) has implemented Whistle Blowing Systems (WBS) in the company. This system is used to facilitate whistle-blower in which the role of whistle-blowers are very important and will greatly assist in the disclosure of the

fraud cases that break the applicable law in PT. Pelindo III (Persero).

Responsibility

The principle of responsibility is applied very well through the activities related to the environment and the welfare of society. Some of those activities are providing funds for community development programs, mass circumcision, and medical assistance to flood victims.

Independency

The principle of independency has been applied properly. The company has a greater degree of independence, as the company takes appropriate action and makes decisions in a professional manner.

Fairness

The principle of fairness is applied properly, by presenting the company's financial statements which are audited annually and otherwise reasonable. The each issue of the company is able to be immediately solved. In addition to the publication of fair financial statements, the company also applies and subjects to applicable laws. The Company establishes the fair rules are fair to all the directors and employees in the company.

GCG Scoring at PT. Pelabuhan Indonesia III

As the result of the comparison GCG Scoring in Chapter IV, there are 3-point differences between the scores of GCG according FCGI (Forum for Corporate in Indonesia) and according to the assessment of the BPKP.

It does not show any significant changes. The point differences are due to the differences in indicators or parametre for assessment GCG scores in the company.

As it seen from the table classification (Table 4.6), either score from FCGI or BPKP, both are fall into the category of "Good".

Suggestions

Suggestion for the Company

Through this study, especially the company management associated with the implementation and monitoring of Good Corporate Governance (GCG) is increasingly aware of the significance of good corporate governance. In addition the company also expected to be more considered adopting a policy regarding with the application of the principles of Good Corporate Governance (GCG) to be a better and sustain company.

There are several things that need to be improved in the following year. First, is the company should make clear information related to whistle blowing system in the company's website therefore, everyone can update and find out about the system. Second, the company is obliged to follow the recommendations of the independent appraiser on achievement scores of GCG, thus, the company can achieve the maximum score, which is 100.

Implementation of Good Corporate Governance (GCG) cannot be done separately depending on the wishes of each company. The whole company, especially state-owned enterprises in Indonesia must work together and the need for integration of each component of the business in order to achieve a clean and respectable company called Good Corporate Governance (GCG).

Suggestion for Future Research

Through this study the researcher aims to continue further research for refiningthe limitations of the problem to

achieve are more comprehensive findings. The next researcher can conduct interviews in better details, therefore, all necessary data

obtained in this research based on the answer of the informants can be more complete and convenience.

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