

The Implementation of Good Corporate Governance in Corporation Management Relating to Harmonisation of Shareholder and Stakeholder Interests

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The implementation of Good Corporate Governance is required for every business entity, corresponding to both the stakeholder and the shareholder. The reason for this is the fact that many companies depend on external capital. The corporation needs to ensure their debtors that the funds are used properly and efficiently, and for management to perform the best for the corporation. This is made certain by implementing by good corporate governance. A good Corporate Governance system gives effective protection to the invested interests. Good Corporate Governance in Indonesia in the framework of national law has not been fully implemented yet, because Good Corporate Governance is a non-imperative concept, and the it is not an obligation to implement. Harmonisation of shareholder and stakeholder interests in the implementation of Good Corporate Governance can be done by first accommodating and attending to the interests of shareholders. This is done by giving them access to corporation information relating to its fairness in performance as this is part of what the shareholders or investors consider before they invest their capital and to protect the position of the shareholder from manipulative corporations and/or companies that are disobeying the governing authority. Then the interests of stakeholders can be ensured by stable corporation performance and the harmonisation of the corporation management system resulting in effective and efficient management, and emphasis on the public accessibility to information about a corporation's fairness in performance either from economic or non-economic aspects.

Key words: *Good Corporate Governance, Management, Harmonization.*

Introduction

Business needs many tools to improve its competitive power. One of the best tools from the point of view of the shareholders is Good Corporate Governance. The companies that do well with implementing Good Corporate Governance have continually higher value than companies that have not implemented Good Corporate Governance. The implementation of Good Corporate Governance is required by every corporation, due to every corporation in running its activity being required to correspond to many demands and requirements from stakeholders and shareholders. The study conducted by the Asian Development Bank (ADB) showed several factors are contributing to a crisis in Indonesia; first, the concentration of high levels of corporation ownership; second, the monitoring committee board is not effective; third, inefficiency and lower transparency concerning the procedures of merger control by and acquisition of the corporation; fourth, the high dependency on external funding; and fifth, not enough monitoring of the creditors. (Surachman A, Handayani I.G.A.K.R, Taruno Y, 2017)

Companies are dependent on external capital (equity and loan capital) to pay for their business activities, to invest and to create growth. As this is case, the corporation needs to ensure external fund holders that the funds are and will be used properly and efficiently, and that managements is doing the best for the corporation. This guarantee is given by a good corporation management system and good corporate Governance. A good corporate governance system provides effective protection for the shareholders and creditors, so they can be certain that they will at least get their investment back and though most likely at a higher value. A study conducted by the Asian Development Bank stated that generally about five shareholders have control of 57% to 65% of the corporation shares. Commissary generally is not effective to protect the interest of the shareholders, because the shareholders having family relationship are in dominant positions. The corporation ownership structure is narrow and the close historical relationship with government officials inhibits the implementation of an efficient and fair law system. (Jaelani A.K, Handayani I.G.A.K.R, Karjoko L, 2019)

Based on the above condition, where ownership is concentrated it causes risks related to corporation management. Many companies that go public can implement good corporation management by attending to the shareholder's needs. On the other hand, companies that do not go public still focus on their capital, which in this case is dependent on gaining the external capital through a bank loan to pay corporation costs. To balance the interest in the corporation, management will take the best actions based on the corporation's interests. The certainty of this comes from the corporation management system. Good corporate governance gives effective protection to the shareholders and creditors, so that they can be sure the refund of their investment will be of higher value. The system, therefore, must help to create a

conducive environment for growing business sectors efficiently and continuously. (Harimurti F, Jaelani A.K., 2019)

A range of regulations govern the relationship between shareholders, managers of the corporation, creditors, government, workers and other internal and external stakeholders concerning on their rights and obligations or in other words there is a system regulating and controlling the corporation. The aim is to create additional value for all stakeholders and it is done with Good Corporate Governance. Scientifically, the corporation in performing their business activity will be influenced by corporate governance frameworks. The framework is formed by law and regulations, ethics code, agreements made with creditors, workers, consumers etc. To have long-term continuity, shareholders and stakeholders need to consider the level of good corporate governance. (Indrastuti L, Jaelani A.K., Nurhidayatullah, Iswanto, 2019)

An effective corporate governance system must be able to maintain direction and not misuse their authority, to ensure that the work is only for the corporation's purpose. Corporate governance focuses the attention on the fundamental issues such as how the managers of the corporation monitor or are influenced by the banking sector, the share market and other funding mechanisms. The monitoring is useful in knowing the direction of the corporation's performance based on the interest of the shareholders and also to improve the present value of the corporation with minimal agency cost. Mainly, what shows is that from the construction of a corporation and its ownership structure emerge conflict potentials and interest problems among the owners. Therefore, it needs regulation and guidance to run the business, and this is related to the implementation of Good Corporate Governance in the corporation. Handayani I.G.A.K.R, Sulistiyono A, Leonard L, Gunardi A, Najicha F.U., 2018)

The investors trust the companies that have implemented Good Corporate Governance. Of note is that the investors put Good Corporate Governance as one of the main criteria besides the financial and corporation growth. There is an indication that the economic crisis in Asian countries in the late 20 century was caused by the weak implementation of Good Corporate Governance. The implementation of Good Corporate Governance principles is needed in market internationalisation including the modern financial and capital markets, for the investors to provide their capital to invest. Principles of Good Corporate Governance provide the basis of the corporation's value and is required in the developing business landscape which is currently focusing on dependence, transparency, professionalism, social responsibility and so on. In Indonesia Good Corporate Governance in concept is divided into three activities, namely determining national policy, completing regulation framework, and building private sector initiatives. Of the three activities the completion of the regulation framework and building private sector initiative are more difficult in their implementation

than determining the national policy related to Good Corporate Governance. (Algonin A.A, Shleag A.M, Handayani I.G.A.K.R, Setyono P, 2014)

Results and Discussion

The Problem of Implementing Good Corporate Governance in Indonesia

The main problem in implementing Good Corporate Governance in Indonesia is related to corporation ownership. The separation of corporation ownership and its management causes problems relating to the division of duty and responsibility. The problem is divided into: *First*, the problem of corporate governance. The separation of ownership and management of a corporation causes problems with corporate governance. When the managers are waged and separated from the shareholders which is not suitable with the interest of the shareholder. Moral hazard problems may emerge between managers and shareholders, between shareholders and creditors, between shareholders and stakeholders and so forth. (Surachman A, Handayani I.G.A.K.R, Taruno Y, 2017)

Second, the varying structure of ownership, concerning how ownership is spread out amongst the owners. The concentration level and composition of the ownership determines the authority distribution amongst the managers in the company and this in turn will influence the decisions that are taken to develop the corporation.

Third, the monitoring of the shareholders. When management is separated from the owners, it causes problems concerning the way the company can effectively monitor the corporation so that the management is done in accordance with the interests of the shareholders. Therefore, it creates commissary association, shareholders participation through RUPS, the role to determine direction compensation related to its performance, law protection, transparency, and disclosure obligation, including the minority shareholders' right. (Sudarwanto, A.S., Handayani, I.G.A.K.R, 2019)

Implementation of Good Corporate Governance in the National Law Framework

The implementation of Good Corporate Governance in Indonesia cannot be separated from the implementation of Corporate Governance globally. The need to manage a corporation in a transparent, professional, and fair way is a requirement of the business. The main problem in implementing Corporate Governance in Indonesia as stated by Ridwan Kherandy is divided into three issues; determining national policy, completing regulation framework, and building private initiatives. The national policy in formulating national policy was started with the establishment of the National Committee on Corporate Governance Policy (Komite Nasional Kebijakan Corporate Governance) through Decision Number KEP-31/M.EKUIIN/06/2000,

then it changed in 2001 to be the Komite Nasional Kebijakan Corporate Governance (KNKCG) and since issuing is guidance for Good Corporate Governance.

In completing the regulation framework to achieve Good Corporate Governance, the government has enclosed the essence of implementing Good Corporate Governance in the regulation. In example, in the regulation of firms, regulations like the founding process rules for law firm UUPT required that the firm was established by 2 people or more. Because of this UUPT will not get the stigma that the firm is monopolized by having one owner only. Besides this, by ensuring the separation between the commission board as controller and the direction board as executive in a company implementation of Good Corporate Governance is realised. This system was adopted in Indonesia following the Two-Board system adopted by Continental European countries. (Frederick C.W, 2006)

Committee establishment is related to the implementation of Good Corporate Governance principles in several fields like banking, the share market, and state-owned enterprises (Badan Usaha Milik Negara or BUMN). In addition, the need to implement the principle of good corporate governance by each corporation that is active in the share market is a reflection of the influence of the paradigm shift to now apply universally ethical and moral principles. The implementation of good Corporate Governance in Indonesia in national law framework has not been fully implemented although the above three problems can be solved by the government and the company itself. The most important factor is the basic perception difference related to the implementation of Good Corporate Governance. The policy of large financial institutions in funding companies through capital loans is to include requirements for the companies to implement good corporate governance. The concept of Good Corporate Governance is a non-imperative concept, meaning that the principles of Good Corporate Governance can be implemented and not implemented, in which the consequence is on each company implementing it. This is different from the companies which are incorporated like the corporation mentioned in the last paragraph and those in banking, the capital and share market, and state-owned corporations or BUMN. (R. Ardyati & E.A. Carollina, 2019)

Outside the mentioned corporations, the implementation of Good Corporate Governance principles is not an obligation for companies because it is not imperative. Non-binding implementation of Good Corporate Governance principles results in optional implementation that is not an obligation. Indonesia which adopts civil law system (regulation) constructed by legislative, and the authority to construct law is on the authority like BI, Bapepam, and other institution so that judges do not have role in solving case or business suit which most occur involving many sides, so it creates public trust and lower the court institution. It is different from the state adopting a common law system in which the court has great discretion to achieve investor protection. (R. Saputra, 2019)

Indonesia is weak in law enforcement causing the delay of the implementation of the Good Corporate Governance principle as an obligation to protect interests of every side involved in a company. The implementation of Good Corporate Governance principles is an absolute requirement for a company when it wants to achieve good performance in the corporate sector, which later has the domino effect of improving the global economy. However, for that to happen the concept of Good Corporate Governance can not be optionally implemented in Indonesia. By implementing the Good Corporate Governance principle, it is expected that the parties involved in the corporation can be protected without impacting shareholder's rights, even for the minority shareholders. Thus, it will minimize conflict or suing of each side in a corporation, either the shareholder and stakeholder or the government in general. (Sudarwanto, A.S., Handayani, I.G.A.K.R, 2019)

Harmonisation of Each Sides Interests in Implementing Good Corporate Governance

Initially, the existence of the Good Corporate Governance principle is supported by external demand in order for the corporation not to lie to the public. The existence of Good Corporate Governance started in early 1990 when the accountancy affair case of Enron and several companies in Amerika was exposed. Because of this case there were many demands to reform incorporating good corporate governance and this spread globally to many countries. The problem seen recently is how the implementation of Good Corporate Governance principles in a company influences the companies which do not implement Good Corporate Governance principles. It can be seen specifically on the impact of Good Corporate Governance implementation in the company itself. Logically, as it is simply assumed that we want the better company performance and profitability, those involved in the company want the company to have implemented Good Corporate Governance principles. The next question is if each Indonesian company can implement Good Corporate Governance principles, resulting in all the companies having similar form, type and characteristics although the initial Good Corporate Governance principle can be implemented in a public company. As the world development in the implementation of Good Corporate Governance principles shows it is not only applied on public companies but also outside the public companies. (A.D. Basri, 2019)

The idea of corporate governance is not separated from any problem, the existence of corporate governance is created as a system, structure or value which has to be developed by the corporation for these to exist. According to John Pound in his article, cited in a Harvard Business review on corporate governance by Mohammad Nur Sodik, the implementation of corporate governance is similar to authority division. The implementation is seated in the issue of dividing authority amongst the CEO and other Boardmembers (in Indonesia the division of commission and direction board), placing managers properly, monitoring workers and firing them when they make mistakes. (Nugraha, M.H.A, Sudarwanto, A.S., 2019)

It does not suit the essence of corporate governance to put emphasis on the system creation directing board of director members to run the company and make decisions effectively whilst asking for suggestions from the shareholders. The implementation of corporate governance in Indonesia according to Mohammad Nur Sidiq in his writing entitled portrait GCG recently is only discussing the concept and far of the essence. It can be seen from the three aspects, namely corporate governance as concept of persistence, but the lower shareholders protection who is minority and the needs to support the role of stakeholder. The three things can be solved when there is synergy among sides in implementing corporate governance.

Conclusions

Based on the elaboration above, the implementation of good corporate governance in managing corporations relates to harmonisation of the interests of the shareholder and the stakeholder, it can be concluded that the implementation of Good Corporate Governance principles in Indonesian corporations is influenced by three things. First, determining national policy by forming a National Committee of Corporate Governance which has the duty to construct guidance about the implementation of Good Corporate Governance for corporations. Second, to complete the regulation frame for the realisation of Good Corporate Governance as been done by the government by including components of implementation of Good Corporate Governance in regulation like firms, banking, investment, and insurance. Third, building initiative for the private sectors to implement the principles of Good Corporate Governance was not fully performed by the government as controller and policy maker. The implementation of Good Corporate Governance in Indonesia in the framework of national law has not been fully implemented due to the fact that the concept of Good Corporate Governance is a non-imperative concept and its implementation is optional. It is worsened by the weakness of law enforcement in and by the civil law system followed by Indonesia, which is not a regulation constructed by legislative authority, and the authority of constructing law is a different institution to common law, in which the court has big discretion to widely implement measurements aiming to protect investors when business problems occur.



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