

Corporate Governance Code and Development in Indonesia — An Update

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Abstract

Corporate governance is a relatively recent field of economic research. Interest in this field has been spurred by the high number of corporate scandals at the turn of the 21st century (Enron, Tyco, Adelphia, WorldCom, etc.). They opened the eyes of the public all over the world to the abuses that companies can do when they are not under strict surveillance. In Indonesia, the Government has become more aware that for GCG to be successfully implemented, it needs to have the public support and the existence of good public governance. Encouraged by that, the Government has established the National Committee for Governance (NCG) and issued The Code of Good Corporate Governance of Indonesia, hereinafter called the GCG Code, as a living instrument offering standards as well as guidance for companies to implement GCG. At the same time, as part of ASEAN country, Indonesia also have to comply with regulation when doing business across countries in ASEAN. ASEAN Finance ministries plan to promote integrated capital market by issuing ASEAN CG scorecard. These two documents are use OECD principles as benchmark for developing the scorecard. As these document using the same benchmark, these two documents should have same principles. This article attempts to provide a comparison of Indonesia ' Code of Corporate Governance and Asean Corporate Governance Score card.

Keywords: corporate governance, Code of Corporate Governance and Asean Corporate Governance Score card

I. Introduction

Over the last ten years , the term of Good Corporate Governance (GCG) increasingly popular. First, GCG is one key to a successful company to growth and thrive in the long term , as well as winning the global business competition. Second, the economic crisis

in Asia and the Americas are believed to arise due to the failure of implementation of GCG. Economic and monetary crisis in 1997-1999 in Indonesia, which developed into a multidimensional crisis prolonged because many companies that have not implemented consistently GCG (NCG 2006). Enron in the United States engaged in the field of energy. Enron's business scope of which is electricity, natural gas, pulp, paper, communication, etc.. The bankruptcy of Enron no longer considered solely as a business failure, but a scandal that is multidimensional, involving politicians and prominent leader in the United States. It can be seen from Enron management that has inflated (mark up) revenue of U.S. \$ 600 million, and hid debts totaling U.S. \$ 1.2 billion. Not to mention the involvement of top officials from the White House and Senate politicians in the United States has ever received funding from the company's policy (.Transparansi.or.id). The events of World-Com and Enron in the United States have extended the application of beliefs about the importance of good corporate governance. The collapse of public companies due to the failure of the strategy and fraud practices of top management that goes undetected in a long time due to lack of independent oversight by corporate boards. In the United States, the event addressed the fundamental changes in the laws and regulations in the field of auditing and capital market. In other countries, it responded differently, among others, in the form of improvement of corporate governance guidelines in the relevant country.

So far the enforcement of the rules for the application of CGG no sanctions for companies that have not implemented or that have applied but not comply with the standard implementation of GCG. However, the implementation of GCG implementation adds value to the company in helping the management company will be able to deliver the best performance not only for the company itself but also to the outside community (Marsella 2013) . A number of companies that have implemented successful corporate governance into a company that has good performance results and is able to increase consumer confidence . This is a tremendous opportunity for companies in Indonesia, but it would be better if the company is also implementing good corporate governance (GCG) in it to help the management of the company will be able to deliver the best performance not only for the company itself but also to outside the community. Because there are many companies that have implemented successful corporate governance into a company that brings good results and favorable performance. For example, Indosat awarded the Alpha Southeast Asia 's Institutional Investor Corporate Awards 2011 for the category of The Strongest Adherence to Corporate Governance in 2011 from Alpha Southeast Asia Magazine . This recognition shows Indosat position in the eyes of stakeholders, to implement the best practices of Corporate Governance in running the company's business and provide the best service to customers. Including compliance with applicable regulations and provisions, Indosat rests on five main pillars of transparency , accountability, responsibility independence and fairness. Indosat always make every efforts to do business responsibly, to provide sustainable benefits to all shareholders and stakeholders. The company also will continue to implement the Corporate Governance and to provide services and products that encourage sustainable growth and strengthen its position as one of the leading telecom company.

The development of world capital markets suggests that the increasingly integrated capital markets. Similarly, in the ASEAN region, one of the integration is done in the presence of the ASEAN Capital Markets Forum (ACMF). ACMF consisted of 10 capital market regulator in the jurisdiction of ASEAN, namely Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam. Currently, ACMF

led by the Securities and Exchange Commission of Thailand. Integration of capital markets in the ASEAN region allows capital to move freely, issuers are free to raise capital anywhere and investors can invest anywhere. One strategy to promote the goals of such integration as stated in the Implementation Plan is to strengthen the implementation of good corporate governance aspects of the companies in the ASEAN region (Bapepam 2010). To support this strategy, needs to be mapped to the Code of Corporate Governance in Indonesia and Asean Corporate Governance Score card. By knowing a comparison of the two is expected to be used as a reference in order to develop policies and improve the implementation of corporate governance for publicly listed companies in the Indonesian capital market. With the implementation of good corporate governance quality equivalent compared with other countries in ASEAN, companies are expected to compete in Indonesia so that the benefits of capital market integration in the ASEAN region can also be felt by companies in the Indonesian capital market in particular and Indonesia in generally.

In addition, recent Indonesian Institute of Corporate Directorship set 30 public company listed on the Indonesia Stock Exchange as a Top 30 issuer with the highest corporate governance score in 2013. Two Public Company State Owned Enterprises (SOEs) and the private banks into the big 3 companies with the highest CG scores. The score obtained from the use of assessment results IICD ASEAN Corporate Governance Scorecard benchmark in assessing the transparency of public company practices in Indonesia. ASEAN CG Scorecard is an initiative of the ASEAN Capital Markets Forum (ACMF) which consists of the capital market regulators in ASEAN countries. This scorecard has also been used to assess the CG practices of leading companies in other ASEAN countries such as the Philippines, Malaysia, Singapore, Thailand and Vietnam. This is in line with the disclosure of the Chairman of the Board OJK Muliawan Hadad stating that “The road map aims to achieve the improvement of corporate governance in Indonesian listed companies to align with companies in other Southeast Asian countries” in the event the issuer’s announcement of 30 best scores CG highest in Jakarta , Monday, March 25, 2013.

Ten publicly listed companies in the stock market country issuers have the right to bring its status as the most transparent in Indonesia. In the top 10 list, the dominance of banks and government companies are very visible. Revenue highest score it has performed well in their respective businesses in addition to the stock price is relatively higher than other issuers. Growth achieved in the year to year continues to show progress. Here is a list of 10 companies with the best transparency rate of the range listed in the Indonesian capital market (in alphabetical order made by the company): PT Adira Multi Finance Tbk, PT Aneka Tambang (Persero), PT Bank Development West Java and Banten Tbk, PT Bank Danamon Indonesia Tbk, PT Bank Internasional Indonesia Tbk, PT Bank Mandiri (Persero) Tbk, PT Bank Negara of Indonesia Tbk, PT Bank OCBC NISP Tbk, PT Perusahaan Gas Negara (Persero) Tbk, PT Telekomunikasi Indonesia (Persero) Tbk. (source: skalanews.com)

Overview of Market rankings and score 2012 reveal a curious trend: most of the markets rising are in Southeast and South Asia, including Singapore, Thailand, Malaysia, India and the Philippines. We do not see a common factor driving this. Three of four North Asian markets—Japan, Taiwan and China—fall in score and ranking. We do see some common factors impeding reform. The fourth, Korea, rises—but from a low base. Hong Kong rises marginally. Indonesia falls and reclaims last place.

Figure 1 : Market Rankings and Score 2012 by ACGA

Market rankings & scores, 2012					
CG Watch market scores: 2007 to 2012					
(%)	2007	2010	2012	Change 2012 vs 2010 (ppt)	Trend of CG reform
1. Singapore	65	67	69	(+2)	Improving, but culture needs to open more
2. Hong Kong	67	65	66	(+1)	Static, but reinvigorated regulator positive
3. Thailand	47	55	58	(+3)	Improving, but corruption a major issue
4. = Japan	52	57	55	(-2)	Government stalling, companies opening
4. = Malaysia	49	52	55	(+3)	Culture at last showing signs of openness
6. Taiwan	54	55	53	(-2)	Rules improving, but still behind the curve
7. India	56	48	51	(+3)	Enforcement up, Delhi an obstacle
8. Korea	49	45	49	(+4)	Government more open, chaebols closed
9. China	45	49	45	(-4)	Rules improve, but culture still weak
10. Philippines	41	37	41	(+4)	Improving, but will it be sustained?
11. Indonesia	37	40	37	(-3)	Regressing, but new regulator may help

Source: Asian Corporate Governance Association

Research Question

1. How is the code of corporate governance in Indonesia?
2. How is the code of corporate governance in Asean CG Score card?
3. How is a comparison of Indonesia Code of Corporate Governance and Asean Corporate Governance Score card?

Purpose of Study

Research objective in this article is :

1. Obtain an overview of how the code of corporate governance in Indonesia
2. Obtain an overview of how the code of corporate governance in Asean CG Score card
3. Obtain an overview of how a comparison of Indonesia Code of Corporate Governance and Asean Corporate Governance Score card

Benefits and Contributions Research

The benefits of this research can be grouped into two main parts:

1. For the world of practice, by knowing a comparison between code of corporate governance in Indonesia and Asean CG Score card is expected to be used as a reference in order to develop policies and improve the implementation of corporate governance for publicly listed companies in the Indonesian capital market.
2. For the world of academic, Enrich research and teaching in the field of accounting and Provide input efforts to improve CG practices in Indonesia

II. Meaning and measurement of corporate governance

Corporate Governance and Principles of Good Corporate Governance

Two main theories related to corporate governance is stewardship theory and agency theory (Chinn, 2000; Shaw, 2003). Stewardship theory builds on the philosophical as-

assumptions about human nature that the man is essentially trustworthy, able to act with responsibility, integrity and honesty of the other party. This is implicit in the fiduciary relationship desired shareholders. In other words, stewardship theory as a management view can be trusted to act in the best interests of the public and stakeholders. Meanwhile, agency theory is developed by Michael Johnson, considers that the management of the company as “agents” for the shareholders, will act with full awareness of their own, not as the wise and prudent and fair to shareholders (Khairatu 2006). There are two things that are emphasized in this concept, firstly, the importance of shareholders’ rights to obtain information correctly and in a timely manner and, secondly, the company’s obligation to make disclosure (disclosure) is accurate, timely, transparent information on all of the company’s performance, ownership, and stakeholders. There are four main components required in the concept of good corporate governance, (Kaen, 2003; Shaw, 2003), namely fairness, transparency, accountability, and responsibility. These four components are essential for the implementation of good corporate governance principles consistently proven to improve the quality of financial reporting and can also be inhibiting performance engineering activities that result in the financial statements do not describe the fundamental value of the company.

Corporate governance is one key element in improving economic efficiency and growth as well as enhancing investor confidence that involves a set of relationships between a company’s management, its board, its shareholders and other stakeholders and also provides the structure through which the objectives of the company, the means of attaining those objectives and monitoring performance. (OECD, 2004)

Principle of Good Corporate Governance released by OECD 2004 is:

1. Ensuring the basis for an Effective Corporate Governance Framework
2. The Rights of Shareholders and Key Ownership Functions
3. The Equitable Treatment of shareholders
4. The Role of Stakeholders in Corporate Governance
5. Disclosure and Transparency
6. The responsibilities of the Board

Good Corporate Governance is necessary to enhance the creation of an efficient and transparent market that is consistent with the laws (NCG 2006). Hence, the implementation of GCG needs to be supported by three inter-related pillars, namely the regulatory, supervisory and enforcement authorities as regulator/policy makers, the business community as market participants, and the public as users of products and services of the business community. The basic principles that must be implemented by each pillar are:

1. The regulatory, supervisory and enforcement authorities develop laws and regulations that will promote the creation of a healthy, efficient and transparent business climate, implement and maintain it, and support it with a consistent law enforcement.
2. The business sectors as market participants implement GCG as the underlying ground in conducting business.
3. The public as users of the products and services of the business sectors and as the party impacted by the existence of a company demonstrate its concern and exercises an objective and responsible social control.

Ambit of corporate governance

Corporate governance is about the governance of corporations, which may not be

a particularly revealing statement from a definitional point of view but it does remind us that CG is to do with corporations and it is also to do with determining the activities in which they are properly engaged. The Cadbury Committee (Cadbury Report, 1992, para. 2.5) put it this way: 'Corporate governance is the system by which companies are directed and controlled'.⁶ The Committee went on to elaborate on the respective roles of the board, the shareholders and the auditor: 'Boards of directors are responsible for the governance of their companies. The shareholders' role in governance is to appoint the directors and the auditors and to satisfy themselves that an appropriate governance structure is in place (para. 2.5). The role of the auditors is to provide the shareholders with an external and objective check on the directors' financial statements (para. 2.7)'. In April 2010, the Australian Government's Corporations and Markets Advisory Committee (CAMAC, 2010) issued a report, 'Guidance for Directors', which implicitly backs (p. 7) the Cadbury Committee's view. Subsequently, the CAMAC report quotes (p. 17) the HIH Royal Commission report, *The Failure of HIH*.

Insurance (2003) Volume 1, pp. 101–102, as follows: 'At its broadest, the governance of corporate entities comprehends the framework of rules, relationships, systems and processes within and by which authority is exercised and controlled in corporations'. It is worth noting that, on this view, CG is confined to matters that are, or ought to be, within the control of the shareholders and the board. Perhaps that explains why authoritative 'principles' statements typically deal with matters which the shareholders and the board can decide and implement. Because of its breadth, research in CG is characterised by the lack of a unifying theory. The lack of theory is evident in the nature of the questions asked, how they are framed, the core ideas and the reasoning processes that underpin hypotheses, how models are specified, how the dependent and explanatory variables are defined and measured, which estimators are used and how tests are applied, and the manner in which conclusions are reached. This state of affairs is an inevitable reflection of the range of perspectives academics have taken when thinking about

CG matters. Suppose we take the typical view in the finance literature, as described by Shleifer and Vishny (1997, p. 737): 'corporate governance deals with the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment'. While this is hardly a rigorous definition of CG, it does nonetheless capture the essence of the common concern in the finance literature with agency costs and their resolution. Examples are the board's usage of corporate payout policy in combination with CG structures to curb over-investment, or of a combination of governance structures and incentive contracts to align managers' interests with those of shareholders or lenders. But as we shall see, the finance literature also contemplates actions being taken by external parties, such as substantial shareholders or financial institutions, to address agency costs that can arise when the firm's 'controllers' pursue their own interests to the disadvantage of others with legitimate claims. Clearly, the finance view would be seen by some as too narrow (it does not contemplate appointing boardmembers primarily because of the resources they can contribute) and by others as too broad (corporate law and accounting standards also have a role in addressing agency conflicts, e.g. with respect to self-dealing and the disclosure of related party transactions). In this review, like others (e.g. Gillan, 2006), for convenience we distinguish between internal and external governance characteristics. This distinction can be blurred as it is contingent upon the firm and its circumstances. By internal governance characteristics we mean the CG structures and processes that are within the control of the firm's shareholders and the board of directors.

There are also exogenous factors which have a bearing on the extent of agency conflicts and their costs. Typically they include the underlying nature of the firm's business and its future investment opportunities, its resources and technology, the legal system and the laws of the land, financial accounting standards and their enforcement, capital markets and their operating rules and protocols, and so forth. Subject to exogenous factors and depending on the firm's constitution, the shareholders and the board will either separately or collectively take various CG actions, including e.g. changing the constitution (perhaps to increase the board's size), electing directors, establishing various board committees and appointing their members, appointing the CEO and agreeing their compensation package, and appointing the auditor. Once the board is itself appointed, it will in turn elect a chairperson and appoint the CEO and delegate powers and responsibilities to various functionaries as considered appropriate. It is worth noting that while many of these actions are to a large extent discretionary, they typically are taken against a backdrop of common practice, or practices recommended in codes of 'best' CG.⁷

Some aspects of governance that have a bearing on agency costs are the result of decisions by external parties. Examples are decisions by blockholders, financial institutions or hedge funds to invest in a firm with a view to influencing its financial policies and the payoffs to shareholders. Other examples are the ways in which the firm's financial advisors or auditors discharge their responsibilities, and how market operators, corporate regulators or security analysts influence disclosures and accounting policies and practices. These relationships are complex and involve actions and reactions, not necessarily sequential and in many cases endogenously determined.

Measuring corporate governance

The lack of clarity about the boundaries of CG is reflected in the structures of CG databases. Most databases focus on choices made by the firm's shareholders and directors but there are exceptions. An example is the Japanese CG database, Nikkei Economic Electronic Databank System's Corporate Governance Evaluation System, which rates firms according to internal and external CG practices as well as by what we later describe as CG outcomes. Most databases contain annual data but again there are exceptions. Databases maintained by Institutional Shareholders Services (ISS) have daily records of CG items for thousands of firms in the United States and in other countries. However, most CG items remain unchanged for long periods of time. We refer to this property as 'stickiness'. Databases can contain many items, which raises the question of the dimensionality of the data. We comment in this section on the dimensionality of CG data as well.

a) Stickiness

It is not uncommon for researchers to note a degree of stickiness in CG variables—after all, the board of the average firm for example is not revamped that often. Initial Public Offerings (IPOs) are one setting where the shareholders historically have had an almost clean slate when it comes to deciding the structure and composition of their boards. Interestingly, da Silva Rosa et al. (2004) report that, before the Australian Securities Exchange's (ASX's) best practice recommendations were released (ASX Corporate Governance Council, 2003),⁸ small Australian IPO firms without lengthy operating histories had previously established boards with characteristics substantially different from the recom-

mendations, which led the authors to question whether the ASX recommendations may have been too prescriptive and costly for small firms. For established firms, the board's structure and membership, and the performance of the directors, are increasingly subject to ongoing review, especially when there is a major legislative change or when codes of best practice are proposed or issued. Cicero et al. (2010) present evidence that US firms pursue target board structures, and that they do so at economically meaningful rates. Using a broad panel of changes to board structure over the period 1991–2003, they find that these changes are frequent, with approximately two-thirds of firms changing either board size or independence during a 2-year period. They predict a target board structure for each firm-year based on existing theory and find that firms close about 45 per cent of the gap between their actual and predicted target board size, and 63 per cent of the gap between their actual and predicted target board independence over the 2-year period. The rate of change is positively associated with the benefits of implementing effective boards and negatively associated with measures of CEO influence. Observed changes in both board independence and size in either direction are consistent with the pursuit of an economically efficient target, suggesting that pressures to adopt boards with prescribed characteristics may reduce efficiency. We are not aware of any similar study in Australasia.

To obtain an indication of the extent of stickiness in the CG of major Australasian firms, we calculated Pearson's rank order coefficient of correlation between the rankings in adjacent years of the CG practices of the largest 250 Australian firms, using rankings contained in the Horwath/University of Newcastle reports for 2002–2009.⁹ This correlation has consistently exceeded 0.86 since 2005–2006. The maximum correlation is 0.89 for 2008–2009; the minimum is 0.72 for 2003–2004, which reflects changes made by firms to their CG following the release of the ASX recommendations. As another indication, we analysed the rate of change in each of the 166 individual CG items with useful data for all non-US firms in the ISS database between 23 October 2003 and 30 June 2010.

For Australian firms, there were only 13 371 changes in more than 40 million firm-item-days; for New Zealand firms, there were 2584 changes in more than 4 million firm-item-days.¹⁰ Clearly, stickiness is an issue of concern as it results in loss of statistical power in CG research and may well require considerable care in experimental design.

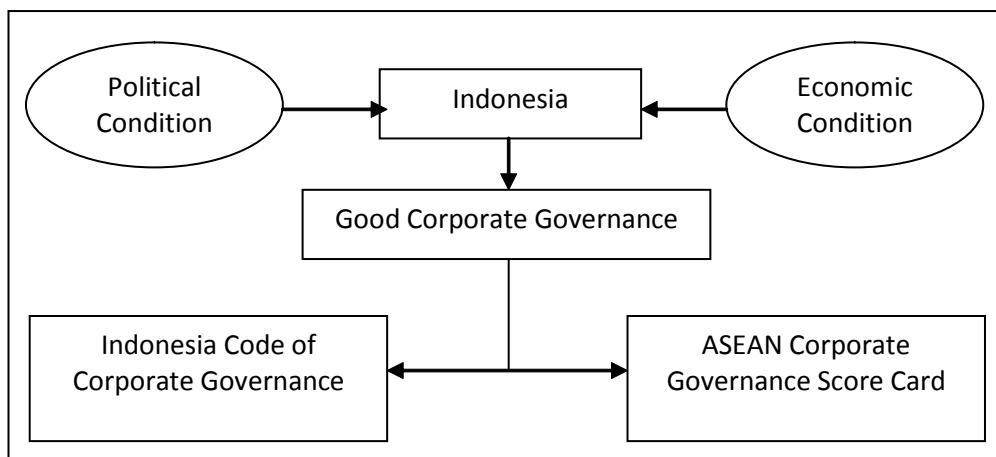
b) How many CG dimensions are there?

Many early studies of CG focus upon one particular governance component, such as the proportion of non-executive directors or duality (duality is where the roles of CEO and board chairperson are filled by the same individual). More recently, with the advent of large corporate governance databases such as those provided by ISS and Investor Responsibility Research Center (IRRC), composite measures are increasingly employed in the literature. They condense the information contained in a large number of individual governance items into a single (yet seemingly informative) measure, the suggestion being that, because it is unlikely a single characteristic can measure the overall quality of a firm's CG, a composite measure would do better. Although the creation and use of composite governance scores has intensified among researchers, this practice has mostly not been accompanied by a systematic and careful comparative study of, and reflection on, its merits. The plethora of CG measures can make it well-nigh impossible to explain conflicting results. The widely used G-index (Gompers et al., 2003) is a composite measure. It is computed from data compiled by IRRC as the equally weighted sum of 24 individual shareholder rights practices across five characteristics (regulations that delay a takeover,

protect management, limit what shareholders can vote on, or limit a takeover; and state laws). The G-index adds one point for every practice that reduces shareholder rights, so firms with a lower G-index have stronger shareholder rights. Another example of a composite measure is Gov-Score (Brown and Caylor, 2006). It is the equally weighted sum of 51 governance practices compiled by ISS, and it reflects both internal and external governance characteristics. Assigning equal weight to each individual practice presumes that the governance elements are equally valuable and are complements rather than substitutes. Others create normalised scores of various governance characteristics, which are then summed to achieve an overall score (Bertrand and Mullainathan, 2001).

The method used in this study is through library derived from the Code of Corporate Governance in force in Indonesia and Asean Corporate Governance Score Card. Code of Corporate Governance in Indonesia issued by a national institution that is not only a reference for public companies but also applies to all types of companies, namely the NCG.

Figure 2 : Conceptual Framework



III. Code of Corporate Governance

Indonesia Code of Corporate Governance

a) Ensuring the Basis for an Effective Corporate Governance Framework In Indonesia

GCG is necessary to enhance the creation of an efficient and transparent market that is consistent with the laws. Hence, the implementation of GCG needs to be supported by three inter-related pillars, namely the regulatory, supervisory and enforcement authorities as regulator/policy makers, the business community as market participants, and the public as users of products and services of the business community. The basic principles that must be implemented by each pillar are:

1. the regulatory, supervisory and enforcement authorities develop laws and regulations that will promote the creation of a healthy, efficient and transparent business climate, implement and maintain it, and support it with a consistent law enforcement.
2. the business sectors as market participants implement GCG as the underlying ground in conducting business.
3. the public as users of the products and services of the business sectors and as the party impacted by the existence of a company demonstrate its concern and exercises an objective and responsible social control.

b) Good Corporate Governance General Principles

Each company must ensure that the GCG general principles are implemented on each business facets and within the entire company. GCG general principles which include transparency, accountability, responsibility, independency, and fairness are necessary to attain a company's sustainability by also considering the interests of stakeholders.

1. Transparency : to maintain objectivity in running a business, the company must provide information that is material and relevant in a way that is easily accessible and understood by stakeholders such as companies must provide information in a timely, adequate, clear, accurate and comparable information, company policies should be written and proportionately communicated to stakeholders as well as information that must be disclosed include, but are not limited to, vision, mission, business objectives and corporate strategy, financial condition, composition and compensation management, shareholder control, stock ownership by members of the Board of Directors and the Board of Commissioners as well as family members who have a stake and interest in the company.
2. Accountability : where the company should be able to account for its performance in a transparent and fair to define the job description and responsibilities of each organ of the company, believes that all the organs of the company and all employees are competent according to the task, ensuring an effective system of internal controls in the management of the company, has a size performance for all levels of the company consistent with the values of the company, and had to hold on business ethics and code of conduct agreed .
3. Responsibility : which the Company must comply with the laws and responsibilities towards society and the environment by ensuring compliance with legislation and care about the community and the preservation of the environment, especially around the company.
4. Independency : each organ companies do not dominate each other and can not be intervened by other parties to avoid domination by any party, is not affected by the special interests, are free of conflict of interest or of any influence or pressure, and must carry out its functions and duties in accordance with statutes and legislation.
5. Fairness : which is consider the interests of shareholders and other stakeholders based on the principles of equality and fairness by providing opportunities for stakeholders to provide input and express opinions and to provide fair and equitable treatment to stakeholders in accordance with the benefits and contributions made to the company

c) Business Ethics and Code of Conduct

To attain success in the long term, GCG implementation needs to be based on high integrity. Hence, a code of conduct that can be used as a reference for a company's organs and its employees in applying the values and business ethics is required so that it may become a part of the company's culture. For that reason, a company must employ the following principles:

1. Each company must have company values describing morals of the company in conduct- ing its business.
2. Materialize the moral attitude in conducting business, a company must formulate its business ethics that has been agreed by company's organs and all employees. A continuous implementation of business ethics will constitute a company culture which

- is a manifestation of the company's values.
3. The values and business ethics shall be further elaborated in a code of conduct to enable proper understanding and application.

d) Organs of The Company

The organs of a company, consisting of the General Meeting of Shareholders, the Board of Commissioners, and the Board of Directors, have an important role in implementing the GCG effectively. The organs of a company shall carry out their respective functions in accordance with an applicable provision based on the principle that each organ is independent in carrying out its duty, function and responsibility in the sole interest of the company

e) The Right and Role of Shareholders

Shareholders as owner of share capital shall have certain rights and responsibilities within the company in accordance with the laws and regulations and the articles of association of the company. In exercising their rights and responsibilities, the shareholders shall observe the following principles: 1. the shareholders must be aware that in exercising their rights and responsibilities, they shall also consider the sustainability of the company. 2. the company shall facilitate the exercise of the ownership rights and responsibilities of the shareholders based on the principle of fairness and in accordance with laws and regulations and the articles of association.

f) The Rights and Role of Other Stakeholders

Principles Stakeholders – aside from the shareholders – are those having an interest in a company and are directly affected by the strategic and operational decisions of the company, including employees, resource providers, and communities particularly in which the company operates. There should be a fair and equal relationship between a company and its stakeholders based on law and or through mutual agreements applicable to each respective party. For a sound relationship between a company and its stakeholders, the following principles shall be observed:

1. A company shall ensure that there shall be no discrimination exists based on ethnic, religion, race, group, and gender and that a fair and honest treatment in promoting the development of employees in accordance with their respective competencies, capabilities, experience and skills is created;
2. A company and its resource providers shall cooperate with each other in the interest of both parties based on a mutual benefit principle;
3. A company shall consider the public interest, particularly those of the communities in which the company operates, and the users of products and services of the company.

g) Implementation Statement of The Code

Principles Each company shall make a statement regarding the conformance of its GCG implementation with the GCG Code in its annual report. The statement shall be supported by a report outlining the structure and work mechanism of the company organs as well as other important information relevant to the implementation of GCG. This

statement is necessary to enable the shareholders and other stakeholders, including the regulator, to evaluate the extent of the application of the GCG Code within the company.

h) General Guidelines on GCG Implementation

Principles GCG shall be implemented in a systematic and continuous manner. Accordingly, it is necessary to have a practical guidance to be used as a reference by the company in implementing GCG.

1. In the implementation of GCG, each company shall develop its own GCG manual based on the GCG Code and the Sectoral Code (if any).
2. For the effective implementation of GCG, all parties within the company are required to participate alongside the process

Asean Corporate Governance Score Card

a) Principles Underlying the Scorecard

The development of the Scorecard was guided by the following principles:

- The Scorecard should reflect global principles and internationally recognised good practices in corporate governance applicable to PLCs and in some instances may exceed the requirement and standards recommended in national legislations.
- The Scorecard should not be based on the lowest common denominator but should aim to encourage PLCs to adopt higher standards and aspirations
- The Scorecard should be comprehensive in coverage, capturing the salient elements of corporate governance
- The Scorecard should enable gaps in corporate governance practices amongst ASEAN PLCs to be identified and draw attention to good corporate governance practices
- The Scorecard should be universal and capable of being applied to different markets in ASEAN
- The methodology should be robust to accurately assess the corporate governance of PLCs beyond minimum compliance and box-ticking
- There should be extensive and robust quality assurance processes to ensure independence and reliability of the assessment

Step 1: Initial Development

The Scorecard covers the following five areas of the OECD Principles:

A. Rights of shareholders	(10%)
B. Equitable treatment of shareholders	(15%)
C. Role of stakeholders	(10%)
D. Disclosure and transparency	(25%)
E. Responsibilities of the board	(40%)
	100%

Step 2: Refinement and Validation

Step 3: Development of Detailed Guidance for Assessors

Figure 3 : The Two Levels of the ASEAN Corporate Governance Scorecard

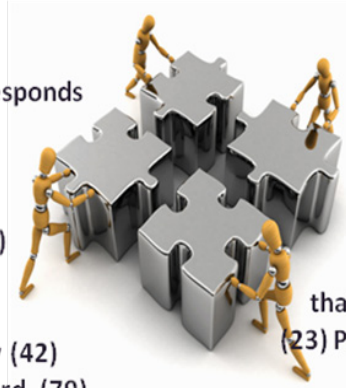
STRUCTURE OF THE ASEAN CG SCORECARD

There are two levels to the ASEAN CG Scorecard

Level 1

Has five major sections that corresponds to the OECD Principles

- Part A: Right of Shareholders (26)
- Part B: Equitable Treatment (17)
- Part C: Role of Stakeholders (21)
- Part D: Disclosure & Transparency (42)
- Part E: Responsibilities of the Board (79)



Level 2

Two additional Sections
Bonus & Penalty

- (11) Bonus items for companies that go beyond minimum standards
- (23) Penalty items for companies with poor practices

Total no of items/ descriptors (185)

Total bonus and penalty items (34)

Source : Asean CG Score Card

b) Guidance to PLCs and Stakeholders on The Use of The Scorecard

PLCs and stakeholders using the Scorecard and results should note the following:

1. Accessibility of Information
2. Methodology of the Scorecard
3. Desired Outcomes
4. Future Refinement of the Scorecard and Methodology
5. Caveats

Important points of Asean CG Scorecard

Asean Corporate Governance Score card focus on some points as follow (ASEAN Capital Market Forum, 2011):

1. Rights of Shareholders are including Basic Shareholder Rights (the company pay (interim and final/annual) dividends in an equitable and timely manner); Right to participate in decisions concerning fundamental corporate changes;, Right to participate effectively in and vote in general shareholder meetings and should be informed of the rules, including voting procedures that govern general shareholder meetings; The exercise of ownership rights by all shareholders, including institutional investors, should be facilitated
2. Markets for corporate control should be allowed to function in an efficient and transparent manner
3. Equitable Treatment of Shareholders are including Shares and voting rights; disclosure of Shares and voting rights; Protecting minority shareholders from abusive actions.
4. Role of Stakeholders are including The rights of stakeholders that are established by

law or through mutual agreements are to be respected; Where stakeholder interests are protected by law, stakeholders should have the opportunity to obtain effective redress for violation of their rights; Performance-enhancing mechanisms for employee participation should be permitted to develop.

5. Disclosure and Transparency are including Transparent ownership structure; Quality of Annual Report; Disclosure of related party transactions (RPT); Directors and commissioners dealings in shares of the company; External auditor and Auditor Report; Timely filing/release of annual/financial reports
6. Responsibilities of the Board are including Clearly defined board responsibilities and corporate governance policy; Code of ethics or conduct; Board Structure & Composition; Audit Committee

IV. Comparison

Code of Good Corporate Governance (GCG) in Indonesia has been formulated by the national Committee on Governance. Guidelines published in 2006 is a revision of the Code of Good Corporate Governance, published in 2001. Although the Code of Good Corporate Governance Indonesia 2006 has no binding legal force, but it can be a reference for businesses in implementing good corporate governance. While ASEAN CG scorecard has been formulated by the Asian Development Bank.

Indonesia Code of Corporate Governance compare to Asean Corporate Governance Score card is show in following table to show mapping between those two standards.

Indonesia Code of Corporate Governance	Asean Corporate Governance Score card
Three pillars: regulatory ; business community and public	Not stated explicitly
The regulatory, supervisory and enforcement authorities develop laws and regulations that will promote the creation of a healthy, efficient and transparent business climate.	Markets for corporate control should be allowed to function in an efficient and transparent manner
Principle #1: Transparency	Disclosure and Transparency
Principle #2: Accountability (account for its performance in a transparent)	Disclosure and Transparency
Principle #3: Responsibility	Role of Stakeholders
Principle #4: Independency	Not stated explicitly
Principle #5: Fairness	Equitable Treatment of Shareholders and Role of Stakeholders
Business Ethics and Code of Conduct #1: Each company must have company values describing morals of the company in conducting its business.	Disclosure and Transparency
Business Ethics and Code of Conduct #2: Materialize the moral attitude in conducting business, a company must formulate its business ethics that has been agreed by company's organs and all employees.	Disclosure and Transparency

Business Ethics and Code of Conduct #3: The values and business ethics shall be further elaborated in a code of conduct to enable proper understanding and application.	Disclosure and Transparency
The organs of a company, consisting of the General Meeting of Shareholders, the Board of Commissioners, and the Board of Directors	Responsibilities of the Board
The Right and Role of Shareholders #1: the shareholders must be aware that in exercising their rights and responsibilities	Rights of Shareholders
The Right and Role of Shareholders #2: the company shall facilitate the exercise of the ownership rights and responsibilities	Rights of Shareholders
The Rights and Role of Other Stakeholders #1: no discrimination exists	Role of Stakeholders
The Rights and Role of Other Stakeholders #2: mutual benefit principle;	Role of Stakeholders
The Rights and Role of Other Stakeholders #3: consider the public interest	Role of Stakeholders
Each company shall make a statement regarding the conformance of its GCG implementation with the GCG Code in its annual report.	Disclosure and Transparency
GCG shall be implemented in a systematic and continuous manner	Not stated explicitly

At first Indonesian in implementing the principles of good corporate governance refers only Indonesian Code of Corporate Governance issued by the NCG . This had a positive impact on the economic development of Indonesia, especially in a climate of competition between companies to be healthy and dynamic . With the implementation of the code of conduct of business and that there are five pillars , it can increase public confidence and maintain the environment with enterprise stakeholders . Along with the development and integration of world capital markets in the ASEAN region allows capital to move freely . Issuers are free to raise capital anywhere and investors can invest anywhere. With the ASEAN Good Corporate Scorecard then now Indonesia can use it as a reference in order to develop policies and improve the implementation of corporate governance for publicly listed companies in the Indonesian market . With the implementation of good corporate governance quality equivalent compared with other countries in ASEAN , companies are expected to compete in Indonesia so that the benefits of capital market integration in the ASEAN region can also be felt by companies in the Indonesian capital market in particular and Indonesia in generally .

V. Summary

After comparing and mapping between Indonesia Code of Corporate Governance and Asean Corporate Governance Score card, it can conclude:

1. Both standards has similar contents since both of the standards are refer to same standard from OECD
2. Indonesia Code of Corporate Governance has more focus on transparency and report-

ing. It is explicitly show guideline about disclosure of comformance about GCG while Asean Corporate Governance Score card has more focus on detail and content that should be disclose, the quality of disclosure.

3. Asean Corporate Governance Score card has greater focus on control the rights of stakeholders compare to Indonesia Code of Corporate Governance
4. Asean Corporate Governance Score card is explicitly require the forming of audit committee, risk management systems and internal audit function

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