

*GOOD CORPORATE GOVERNANCE
ANALYSIS:*

PT Astra International, Tbk.

Oleh:

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GOOD CORPORATE GOVERNANCE

PT ASTRA INTERNATIONAL, TBK

OVERVIEW

A corporation is a mechanism established to allow different parties to contribute capital, expertise, and labor for their mutual benefit. Certainly, there are many parties that had interest to the corporation. The investor or shareholder participates in the profits of the enterprise without taking responsibility for the operations. The top management that manages the operation of the corporation, employees, government, communities, environment, and supplier are also parties involved to the corporation directly or indirectly. We can define a corporate stakeholder is a party who affects, or can be affected by, the company's actions.¹

Good financial statements and good reputation in public eyes can not ensure that the company is well managed by the management. As we can remember the Enron case in 2001 that shocked the world. Enron was an international energy company based in Texas, proved had fraud in their operations. In 2000 Enron recorded their revenues as \$101 billion.² This made Enron as one of the famous and favorite company in the world. But finally this company filed for bankruptcy on December 2, 2001 because of their financial condition and unhealthy business relationship. It also revealed that Enron gave big amount of money to politicians. This case makes us conscious about how importance the transparency is. Enron have made loss to their shareholders because of Enron haven't been transparent.

Enron case made the world realized the importance of guidance or rules that have to be obeyed by a company, so the Enron case not supposed to be happening.

¹ [http://en.wikipedia.org/wiki/Stakeholder_\(corporate\)](http://en.wikipedia.org/wiki/Stakeholder_(corporate))

² <http://id.wikipedia.org/wiki/Enron>

Guidance or rules to run a company must consider good corporate governance (GCG), so the stakeholders and shareholders loss can be minimized.

In Indonesia, we can say that there are still small numbers of companies that conduct GCG in their management. But there is one big company in Indonesia that had GCG in their company for long time. This company is PT Astra International Tbk. In 2003, Astra has been announced as a winner of CGPI 2003 arranged by Indonesia Institute for Corporate Governance (IICG).³

As we know that besides the shareholders, there is other stakeholders included the communities and environment. Therefore, it needed a care for social environment besides GCG. It called Corporate Social Responsibility (CSR). As a company that had GCG in their operations seriously, Astra also had CSR. It reflects from Astra scholarship programs, aid for natural disaster victims, etc.

HISTORY OF CORPORATE GOVERNANCE

Theory of corporate governance discussed for the first time by Berle and Means in 1932 when they made book about the analysis of dispersed ownership. The dispersion is arising interest conflict between shareholders and the management in the dispersed ownership.⁴

In the late of 1980's emerged many conclusion mentioned that dispersed ownership structure will give bad effect on the management performance. In 1992 Bank of England and London Stock Exchange formed Cadbury Committee. This Committee establishes code of corporate governance as benchmark in many countries.⁵

³Eva Martha Rahayu.2005.Terpercaya Dulu, Menuai Manfaat Kemudian. SWA 28 April-11 Mei 2005, p.30.

⁴Surya, Indra and Yustiazvandana, 2006. Penerapan Good Corporate Governance. Jakarta:Kencana. p.24

⁵Ibid.,p.24

Concept of corporate governance develops relatively since 1900's in many countries. Countries that united in OECD (Western Europe and North America) practiced this concept in 1999. Guideline of corporate governance legalized in 1999. Indonesian code formalized in 2001 through Keputusan Menteri BUMN. In 2001, a study group of Corporate Governance made a study to rating corporate governance value in few Asia countries. Indonesia is in the 10th from 11 study countries. This study measure the Corporate Governance Index that consist of many factors, such as discipline, transparency, independence, accountability, responsibility, fairness, and social awareness.⁶

DEFINITION OF GOOD CORPORATE GOVERNANCE

"Corporate governance is ... holding the balance between economic and social goals and between individual and communal goals. The governance framework is there to encourage the efficient use of resources and equally to require accountability for the stewardship of those resources. The aim is to align as nearly as possible the interests of individuals, corporations and society. The incentive to corporations is to achieve their corporate aims and to attract investment. The incentive for states is to strengthen their economics and discourage fraud and mismanagement."⁷

Cadbury Commission define corporate governance as follows:

Corporate governance as a system that directs and controls the company with the goal is to reach balance between competence power needed by the company, to¹⁹ ensure the existence and responsibility to stakeholders. This involves with competence of owner, director, manager, shareholders, etc.⁸

Komite Nasional GCG Indonesia define corporate governance as follows:

Good corporate governance is a relationship pattern, system, and process used by company organ (board of directors, management) to give value added to

⁶Moeljono, Djokosantoso. 2006. Good Corporate Culture sebagai Inti dari Good Corporate Governance. Jakarta: PT Elex Media Komputindo. p.30

⁷Cadbury, Adrian, 1999. Preface to the World Bank publication *Corporate Governance: A Framework for Implementation*. Available from:

http://cgcg.or.kr/cgcg/cgcgmain/html_en/index.htm (Accessed 4 October 2007)

⁸Surya, Indra and Yustiavandana, 2006. Penerapan Good Corporate Governance. Jakarta: Kencana. p.24

shareholders continually in long term, based on law of conduct and norms, and still pay attentions to other stakeholders interests.⁹

ELEMENTS OF GOOD CORPORATE GOVERNANCE

GCG consist of four principles, they are responsibility, accountability, fairness, and transparency.¹⁰

1. Responsibility

Give conformity for the application of company rules and the principle of good corporate and rule of conduct. Example: obey the labor law.

2. Accountability

Clarity of function, structure, system, and responsibility in the company to make the company's management effective. Example: function and right of Meeting of Shareholders and Board of Directors.

3. Fairness

Fair treatment in fulfill the rights of stakeholders that emerge from agreement and rule of conduct. Example: fair treatment to minority shareholders.

4. Transparency

Information transparency in decision making and disclosure of important and relevant information. Example: preparation of financial statement is accurate and on time.

There is a huge differences between responsibility and the other three GCG principles.

The first three principles are giving more pressure to shareholders interest so it is more shareholders-driven concept.

⁹Eva Martha Rahayu. 2005. *Terpercaya Dulu, Menuai Manfaat Kemudian*. SWA 28 April-11 Mei 2005, p. 30.

¹⁰Komite Tetap Bidang Pranata dan Etika Bisnis. *Apa yang disebut Good Corporate Governance*.

¹¹Supomo, Sita. *Forum for Corporate Governance in Indonesia (FCGI)*. Available from: <http://www.republika.co.id> (Accessed 28 September 2007)

ASTRA PROFILE

Astra has always been recognized as a company that is committed to the highest level of good corporate governance (GCG). In practice, this means that Astra constantly strives to foster a culture that values and rewards the highest ethical standards, integrity, and respect for others.¹²

To ensure group-wide adherence to best governance practices, Astra formulated a GCG Code of Conduct, consisting of comprehensive GCG policies including the existing Guidelines for Business and Working Ethics that are applied across the group.¹³

Consistent with Astra philosophy, to be an asset to the nation, Astra is a company that does not only strive to perform its business well but it cares for social issues. As part of its social responsibilities, Astra established some foundations, educational institution, and community development.¹⁴

Since 1999, Astra Groups commitment to environmental and preservation has been part of formal corporate policy. As a responsible company, Astra commit to meet the environment, health and safety standards in all of our facilities and also aim to be the leading green public company.¹⁵

GOOD CORPORATE GOVERNANCE IN ASTRA

Astra is the concrete example GCG in Indonesia. As a whole, this multi business corporation is recorded as active participant of GCG since 2001 with highest score.¹⁶

¹² Anon, <http://www.astra.co.id/profile/governance.asp>

¹³ Anon, <http://www.astra.co.id/profile/governance.asp>

¹⁴ Anon, <http://www.astra.co.id/profile/governance.asp>

¹⁵ Anon, <http://www.astra.co.id/profile/governance.asp>

¹⁶ Santosa, Ippho. <http://v:www.majalahpengusaha.com>

For Astra, GCG is not a new topic. Before GCG become popular in Indonesia, Astra already had values as a base for the operation of the company. Sources of this values are company philosophy, basic principles, business ethics, and work ethics (as known as Catur Darma).

Catur Dharma is consisting of:

1. become useful belonging of nation and country
2. give best services to customers
3. respect each other and build cooperation
4. try to reach the best

This Catur Dharma then translated into seven basic principles of Astra that easily to implement. At least the seven basic principles give imagination or description to the whole employees about belief values of each individual.¹⁷

One of the tools to internalize GCG is through President Letter. President Letter is speech of the CEO that is bring every beginning of the year. This is the essence of management meeting that become work guidance for all Astra Group employees.¹⁸

Initial process of President Letter is begin with listen to two to three outside counselors that are considered understand macro conditions, politic and economic as well. This events is participated by 200 executives of Astra, and to collect various perceptions, that is continued with preparation of company's business plan.¹⁹

Based on development of ideas in management meeting, Astra's CEO then epitomized it in President Letter. Then the executives of Astra translated into annually

¹⁷ Eva Martha Rahayu.2005.Terpercaya Dulu, Menuai Manfaat Kemudian. SWA 28 April-11 Mei 2005, p.36.

¹⁸Ibid, p.36

¹⁹Ibid, p.36

working plan (arranged in detail until amount of profit and loss). In that time, each department can evaluate each other and discuss together to reach an agreement. After reach agreement, this working plan is made in one letter of Key Performance Index (KPI) and signatures together (as Astra politic contract). This document is given to board of directors (BOD). This KPI become monthly evaluation materials by audit team formed by BOD.²⁰

It is needed hard will and big fund to apply GCG in the beginning. But after apply GCG in years the benefit of GCG start to visible. The benefit is the BOD and top management more emphasized company interest than their own interests. There is also a commitment and clear rule of game to organize healthy and ethical business. From the application of GCG, Astra can get trust from the investors and creditors.²¹

CORPORATE SOCIAL RESPONSIBILITY IN ASTRA²²

Consistent with Astra philosophy, to be an asset to the nation, Astra is a company that does not only strive to perform its business well but it cares for social issues. As part of its social responsibilities, Astra established some foundations, educational institution and community development.

Since 1999, Astra Groups commitment to environmental and preservation has been part of formal corporate policy. As a responsible company, Astra commit to meet the environment, health and safety standards in all of their facilities and also aim to be the leading green public company.

²⁰Eva Martha Rahayu.2005.Terpercaya Dulu, Menuai Manfaat Kemudian. SWA 28 April-11 Mei 2005, p.36.

²¹Ibid, p.36

²²Anon, <http://www.astra.co.id>

Environment, Health, and Safety (EHS)²³

Astra International aspires to become Indonesias leading green public company and is committed to protecting and enhancing the environment wherever it operates. These objectives are expressed in the Environment, Health and Safety (EHS) management systems which have had a significant impact on Astras management approach since they were established by the Group in the 1990s.

Astra pro-active approach to sustainable business translates into a 4C format comprising the core values of Commitment, Compliance, Competence and Cleaner Production. These form the foundation of Astra Green Company assessment criteria, which dictate that decision-making is based on the protection and development of the stakeholders environment, health and safety. There are four main areas within the concept of the Green Company. These are aligned with the business principles of the Astra Group, its associated companies and subsidiaries. They are Green Strategy, Green Process, Green Product, and Green Employee.

As part of its social responsibilities, Astra established some foundations, educational institution and community development. There are Dharma Bhakti Astra Foundation (YDBA), Toyota - Astra Foundation (YTA), PT Astra Mitra Ventura (AMV) and Astra Manufacturing Polytechnic.

Community Development²⁴

Since Astra originally established, the Company always cares for the social issues. This includes the provision of scholarships, construction of schools, refurbishment of places of²⁴ worships, and aid for natural disaster victims as well as

²⁴Anon, <http://www.astra.co.id>

²⁴Anon, <http://www.astra.co.id>

participation in public holiday ceremonies in the communities where Astra companies are located.

Astra Group conducts the Community Development programs in most part of Indonesia. The activities range from education, health, welfare to environmental campaign such as scholarships, cleanliness contests, vocational training, medical assistance, etc.

CONCLUSION

Good corporate governance as one of the measurement for public or private institutions. Good corporate governance become one of the assurance for the stakeholders that the institution operate properly. Corporate governance not only related with company intern management also how the company related with surrounding environment, including social environment.

The basic principles of corporate governance fairness, transparency, accountability and responsibility are relevant all over the world. Promoting good corporate governance can be especially beneficial to emerging market companies and countries.²⁵

By adopting principles of good corporate governance, companies in developing countries can often command higher valuations, improve their profitability, and gain better access to outside capital than their poorly governed peers. Developing countries can attract more interest from local and foreign investors and reduce their vulnerability to financial crises.²⁶

²⁵ Anon, <http://rru.worldbank.org/Themes/CorporateGovernance/>

²⁶ Anon, <http://rru.worldbank.org/Themes/CorporateGovernance/>

Of course, applying the standards of good corporate governance is not always easy among various legal, economic and social systems. Nevertheless, many countries and companies are taking positive steps toward corporate governance reform, especially as they see how improving standards can help them.²⁷

In Indonesia there are many companies have not applying GCG, even we can say that more companies are applying bad corporate governance. It is needed strong commitment and motivation from the companies management to apply GCG. There also needed clear regulations and strong law enforcement from the government to execute the GCG violations.

²⁷Anon, <http://rru.worldbank.org/Themes/CorporateGovernance/>

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