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## Implementing Good Corporate Governance in Indonesia: A Strategic Approach

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### Abstract

Good Corporate Governance (GCG) has been widely acknowledged as the global best standard of corporate governance practices. Indonesian business society has been started to implement the standard since 2001. But many corporations currently still struggle to find their best model on GCG implementation. This study is based on a field research at ASGR, a public listed IT company in Indonesia which had passed valuable experience in implementing GCG principles. This study primarily used the company's data from the period of 2000 to 2001, which was the period for ASGR to do early studies and preparations to implement GCG. This paper recommends a strategic model for the implementation of GCG in Indonesia. The model uses a system approach as the analytical basis to connect the implementation of GCG with the strategic context of the company. It includes the utilization of multi-stakeholder, strategic responses, and global benchmarking analysis as the useful tool to guide the strategic implementation of GCG.

**Keywords:** good corporate governance, system approach, strategic management analysis, multi-stakeholder analysis, strategic responses analysis, benchmarking analysis.

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### I. INTRODUCTION

Good Corporate Governance (GCG) which refers to the adoption of transparency, accountability, responsibility, independency, and fairness (TARIF) principles has widely acknowledged as the global best standard of corporate governance practices. Indonesian business society has been implemented the principles since the year of 2001. At the beginning, most of the companies had experienced difficulties in implementing GCG. The difficulties include lack of references or models for the implementation, as well as resistance to change attitude among the business executives. Thus far after more than ten years of experience yet many corporations still struggle, through trials and errors, to find their best model on GCG implementation. Many of them employ technical assistance from private and/or government institutions, while others decide to design it by themselves.

Indonesia Institute of Corporate Governance (IICG) reported that the majority of Indonesia Stock Exchange (IDX) listed companies had shown their compliances with the GCG principles. This report was stated in a review toward the progresses of Corporate Governance Perception Index (CGPI) from the year of 2001 to 2011 (Anonim, 2012, December 7). However, the review also implied that most of the Indonesian corporations only develop their GCG implementations as far as required by the regulations, but with less adjustment to their own needs. These facts raised a question on how to develop a best

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model for GCG implementation. In particular, such model that connects GCG implementation with the corporate strategic intent is needed. This is essential since it will make GCG implementation to take a more strategic role. At global scale, improving the role of board of governance on strategic issues has been suggested (McKinsey & Company, 2011).

ASGR, a public listed IT company in Indonesia, had spent some valuable years of experiences to implement the GCG principles. During 2000 to 2001, the company had conducted several internal preliminary studies to implement GCG. At first, preparations toward GCG implementation were conducted to fulfill the requirement of the Jakarta Stock Exchange (JSX) authority. At that time ASGR saw the issue of GCG implementation primarily as a matter of compliance toward government requirement. Yet, driven by its strong positive values and innovative culture, the company eventually realized the merit of having its best model of GCG implementation. The periods were the initial time for ASGR to implement GCG, and thus could serve as a good case study for other companies that intend to implement GCG principles or revisit their implementation models.

The objective of this study was to address a strategic implementation model of GCG. Using a case study of ASGR, this study discusses the utilization of system approach as the analytical basis, as well as strategic management analysis, multi-stakeholder analysis, strategic responses analysis and global benchmarking analysis as the useful tools to guide the strategic implementation of GCG principles.

## II. LITERATURE REVIEW

### 2.1. GCG Principles

In the last two decades, current global business practices have prerequisite the implementation of GCG principles. There are two main phenomena that introduce the issue: first, fast changes in the global market competition; second, complexity in the structures of ownership (Ariyoto, 2000). This condition causes the complexity of stakeholder's management and increases the risks of global investment. These risks become more obscure and unpredictable by the poor quality of corporate governance, such as in the practices of monopoly, oligopoly, windows dressing, leverage buyout, junk bond, hostile takeover, and insider trading. The often cited examples of such corporate governance failures are the collapses of Enron in 2001 and Parmalat in 2003 (Solomon, 2007).

In Indonesia, as well as in East Asian and other Southeast Asian economies, endorsement on GCG implementation was ignited by financial crisis in Asia in 1997-1999 (Nam et al., 1999; Simanjuntak, 2002). Politic and Economic Risk Consultancy (PERC) in 1999 reported the result of its survey to global business players in Asia that ranked Indonesian corporations as the third-worst in corporate governance practices. In this regards they also identified the existence of two main problems: first, the continuation of family ownership in public listed companies; and second, the inability of the government to settle fraud business cases (Anonim, 2000, June 25). It was also admitted that many of the Indonesian businesses conducting their business without proper ethical considerations. Corporate goals were limited only on the financial goals, while concerns on environment, labor justice and fair business practices were seldom to be considered.

In order to give response to those business malpractices, global business society has defined a common understanding on the global standards of corporate governance. Organization for Economic Co-operation and Development (OECD) defines corporate governance as "a system to direct and control the corporation". Indonesian Capital Market

Supervisory Institution or Badan Pengawas Pasar Modal (BAPEPAM) defines it as “a framework or relations system between shareholders, management, creditors, government and other stakeholders”. Academicians explained it as:

“Corporate governance is any structured system of allocating power in a corporation that determined how and by whom company is to be governed” (Frederick et al., 1992).

“Corporate governance is the overall control of activities in a corporation. It is concerned with the formulation of long-term objectives and plans and the proper management structure (organization, systems, and people) to achieve them” (Steiner, 1997).

“A system of checks and balances, both internal and external to companies, which ensures that companies discharge their accountability to all their stakeholders and act in a socially responsible way in all areas of their business activity” (Solomon, 2007).

The GCG principles have been acknowledged among global businesses. For instance, a research of McKinsey in 2000 reported that investors with a minimum asset of US \$300 billion will put their reliance more on GCG index rather than on financial statement. Hence, it is obvious to say that there are some strategic motives for corporations to adopt and implement GCG principles, i.e.:

1. Achieving corporate commitment to sustain its long-term survival and growth.
2. Convincing all stakeholders to continue business relationships which based on mutual trusts and benefits.
3. Achieving corporate commitment to be a responsible member for the society (good corporate citizenship).

In theory, there are three frameworks to explain the issue of corporate governance (Solomon, 2007). The first one is the agency theory. In finance theory, the primary objective of a company should be to maximize its long-term shareholders' wealth. However, in practice, this is not always the case. The tendency is that executives tend to take opportunistic behaviors such as to achieve high short-run profits, where the executives' pay are related to the variable of profitability. In relation to this theory, the principal-agent model assumes that the condition of corporate governance is reflected positively by the market sentiment, while the myopic-market model assumes that market sentiments are influenced by other factors outside corporate governance (Ariyoto, 2000).

The second theory in this field is the transaction cost theory. The theory is based on the interest of company to internalize transactions as much as possible. This is in order to remove risks and uncertainties. This also applies for the mutual-relationship between the shareholders and the executives. However, this approach is bounded toward the opportunistic behaviors of the parties involved.

The third theory is the stakeholder's theory. This theory highlights the role of company to the shareholders, employees, environment, local communities and other stakeholders. This means that a company should be ethically responsible in conducting its business in the society. The stakeholder's model deals with the capacity of a corporation to satisfy the interests and expectations of its stakeholders (Ariyoto, 2000).

In view of those theories, GCG endorses the principles of transparency, accountability, (social) responsibility, independency and fairness in all business practices. These principles are also adopted and being endorsed in the current Indonesia Corporate Governance Guidelines of 2006 (KNKGCG, 2006). The principle of transparency governs that the disclosure of corporate financial performance should be delivered in proper, accurate, and timely manners. In this sense, corporation has to take initiative to disclose all of the important corporate issues and policies to the shareholders, investors, creditors, and other stakeholders. The disclosure should be delivered in every ways that give easy access for the stakeholders. This is important because the disclosure is the usual basis for

shareholders and investors to predict the value of their financial risks and returns, and also for the rest of the stakeholders to put their expectations and trusts on the corporation.

The principle of accountability means that corporation has to show its full responsibility on the corporate performance. This principle suggests every executive to manage the corporation to the best interest of the corporate wealth and growth. This is to overcome the agency problem between shareholders and executives. This principle depends on the quality of the internal checks and balance system. This also includes good audit practices, sound reward and punishment system, and balance of power between shareholders and the executives (in a two-tier system, the executives are Board of Commissioner's and Director's).

Principle of (social) responsibility concerns with the balance of corporate financial goals and the interests and rights of broader stakeholders. This principle covers the responsibility of a corporation to comply with government's regulation. It also deals with the corporate intent to stay in the business through well maintaining their resources (particularly environment and labor) and builds a mutual-benefit relationship with the community at large as a good corporate citizen.

Next, principle of independency governs that the corporation has to be independently managed and apart from outside forces. It means that corporation has to be able to be objective in taking decisions. Being objective here means that corporation should be free from conflict of interests with other parties. Last but not the least, principle of fairness is needed in order to ensure the equal treatment of shareholder's rights. This principle lays down description of all shareholders rights, including the minority shareholders and protects them from fraud, such as insider trading.

## **2.2. System Approach**

To achieve the purpose of this study, this paper employs system approach as the analytical basis. It initiates a strategic implementation model of GCG. The reason behind the use of system approach was to give answer to the question of how to bridge the GCG implementation with the corporate strategy. In this sense, GCG implementation should be embedded into the corporate strategy to achieve its vision, mission, and long-term goals, adapting with external changes, meeting stakeholder's expectations, and improving its internal capacities. In other words, GCG implementation should be placed as a part of the whole systems in the corporation.

System approach is a study of organization as a set of interrelated and interdependent parts arranged in a manner that produces a unified whole (Robbins & Coulter, 2007). This approach entails analysis of problems and synthesis solutions for the organization. In the analysis phase, a given situation is examined to identify the forces affecting the organization. Moreover, the advantage of this approach is that it allows the analysis of future designs and changes of the whole organization. Therefore, this approach will help any organization to find its best model of GCG implementation. That is a model which suits best with the internal conditions and challenges uniquely face by the organization.

## **2.3. About ASGR**

ASGR has been involved in IT industry for more than 40 years. ASGR first established as a Xerox Division of PT Astra International in 1971. It began as an authorized distributor of copy machines for Fuji Xerox of Japan. Since the late of 1990s, ASGR has shifted its focus on the Document Solution and Information Technology business. ASGR has developed the Document Solution business unit that provides the most extensive products and services in the industry.

The Document Solution business is divided into Office Product, Production System, Printer Channel, and Services Businesses. The customers of ASGR consist of small scale business owners to conglomerates that are engaged in various fields of industry such as financial industry, mining, manufacturing, telecommunication, public services utilities and graphic arts such as copy shops, quick prints, and commercial prints.

The company has become public listed company since 1989. Its majority shares are still owned by PT. Astra International, Tbk. As the results of continued and persistent efforts to implement GCG practices since year 2001, ASGR has been able to transform the principles of GCG into its corporate value system. The company believes that the consistency and sustainability of GCG implementation will bring great benefits for the company in the long run. Following its completion of GCG implementation in the year 2001, a number of achievements have been attained by ASGR as a public company. One of them is the first rank of the Annual Report Award 2006 in the category of Private Non-Financial Listed. The company has also awarded as the Trusted Company according to Corporate Governance Perception Index (CGPI) Report 2006.

### III. METHODOLOGY

This study was conducted through a field research in the year 2000-01, when ASGR was setting up the implementation of GCG. The primary data were gathered from in-depth interviews with the Corporate Secretary of ASGR and enriched with observations on its corporate actions and also Annual Report of 2000-01. The secondary data were gathered from a study of selected publications and web sites. The conceptual framework of this paper is shown on Figure 1. Note that the framework does not consider the influence of ownership structures and forms to the governance systems, a major theme of corporate governance discussed in Watson (2005).

### IV. DISCUSSIONS

This part will discuss the use of Strategic Implementation Model of GCG as shown in Figure 1 where the data of ASGR from the Annual Plan in the year 2000 was considered. There were nine steps as follows:

#### **Step 1: Considering the Vision, Mission and Goals**

The vision of ASGR was clearly defined as "to be The Best IT Based Business Solution Provider in Indonesia". In accordance to this vision, the mission of ASGR in the year 2000 was stated as "provide valued service and solution to inspire creative business action, through valued system and process". These statements reflected the long term aspiration of the stakeholders to the company. A review toward these statements of vision and mission suggested that the company needs to aptly develop a model of corporate governance that in particular gives contribution to the whole systems and processes of delivering the company's services. Consequently, the ultimate goal of the company in this respect was to develop a unique model of corporate governance which could drive the whole systems and business processes of the company.

#### **Step 2: Conducting Global PEST Analysis**

In this step the most current changes of the company's external environments were evaluated. Particular attention was paid to the relevance of those changes to the need of the company to develop a certain model of corporate governance. Reviews were given toward changes in the environment of global business, as well as changes in the political, legal, economic, social, culture, and technological environments. This step resulted on some areas of opportunities and threats of the company. Table 1 shows the resume of Global PEST analysis of ASGR in the year 2000.

**Table 1**  
**Resume of Global PEST Analysis**

Factor	Aspect	Implication
Global Environment	Global business required the implementation of GCG principles. It introduced by fast changes in global market competition and complexity in the structures of ownership	Opportunity
Politic & Legal	<ol style="list-style-type: none"> <li>1. Letter of Intent between Indonesian Government and International Monetary Fund (IMF) on July 1999, stated the establishment of National Committee on Good Corporate Governance (Komite Nasional Kebijakan Good Corporate Governance/KNKGCG)</li> <li>2. On May 2000, KNKGCG published Code of Good Corporate Governance as the official reference of GCG implementation in Indonesia</li> <li>3. On May 31<sup>st</sup>, 2000, BAPEPAM released a regulation, SE-03/PM/2000, that requires the establishment of Audit Committee. Accordingly, JSX released a regulation that requires public listed companies to have Independent Commissioner's, Audit Committee and Corporate Secretary before December 31, 2001</li> </ol>	Opportunity
Economic	<ol style="list-style-type: none"> <li>1. Politic and Economic Risk Consultancy (PERC, 1999) Report gave third-worst rating on corporate governance in Indonesia</li> <li>2. A survey of PricewaterhouseCoopers Endowment for the study of transparency and sustainability (Barth et al., 2001) in 35 countries showed that Indonesia was third-worst country of investment destination in the world</li> <li>3. A research of McKinsey &amp; Company on Investor Opinion Survey (2000) that covers 200 institutional investor (&gt;40% US investors) reported that three-fourth of respondent convinces that board practices do as important as financial performances. More than 80% of the respondents agreed to buy premium price on corporate share which have better corporate governance with regard to equal financial performances. Corporate governance issues that perceived as the most important were:               <ol style="list-style-type: none"> <li>3.1. Board of Commissioner's that consists of majority Independent Commissioner's</li> <li>3.2. Practice of formal performance appraisal of commissioner's</li> <li>3.3. Good responses on investor's questions to corporate governance issues</li> <li>3.4. Commissioner's have significant stock ownership and the majority of remuneration package should come from Stock Option Program</li> </ol> </li> <li>4. The premium stock's price differed according to corporate governance perception on each country. Global investor agreed to pay 27.1% premium for Indonesia</li> </ol> <p>A research of Booz-Allen &amp; Hamilton (1998) showed close relation between corporate governance index and court and law efficiency index in East Asian countries. In this research Indonesia was perceived as having poor performances both on corporate governance index and court and law efficiency index</p>	Opportunity
Social & Culture	<ol style="list-style-type: none"> <li>1. Indonesian corporations were dominated by family companies. The characteristics of family-owned companies in Indonesia were first, ownership structure and recruitment of key positions were determined by primordial criteria (nepotism); second, they tended to hold access of information and other resources only to the inner circle of the family. Obviously, these practices were not in line with the principles of GCG</li> <li>2. Corruption was part of the common practices of the government and businesses</li> <li>3. There were a lot of cases where businesses do their business without proper ethical and social responsibility</li> </ol>	Threat
Technology	Progress in information and communication technology had changed the way companies do their business. The advancements in internet technology was supported the requirement of transparency in the globalized era	Opportunity

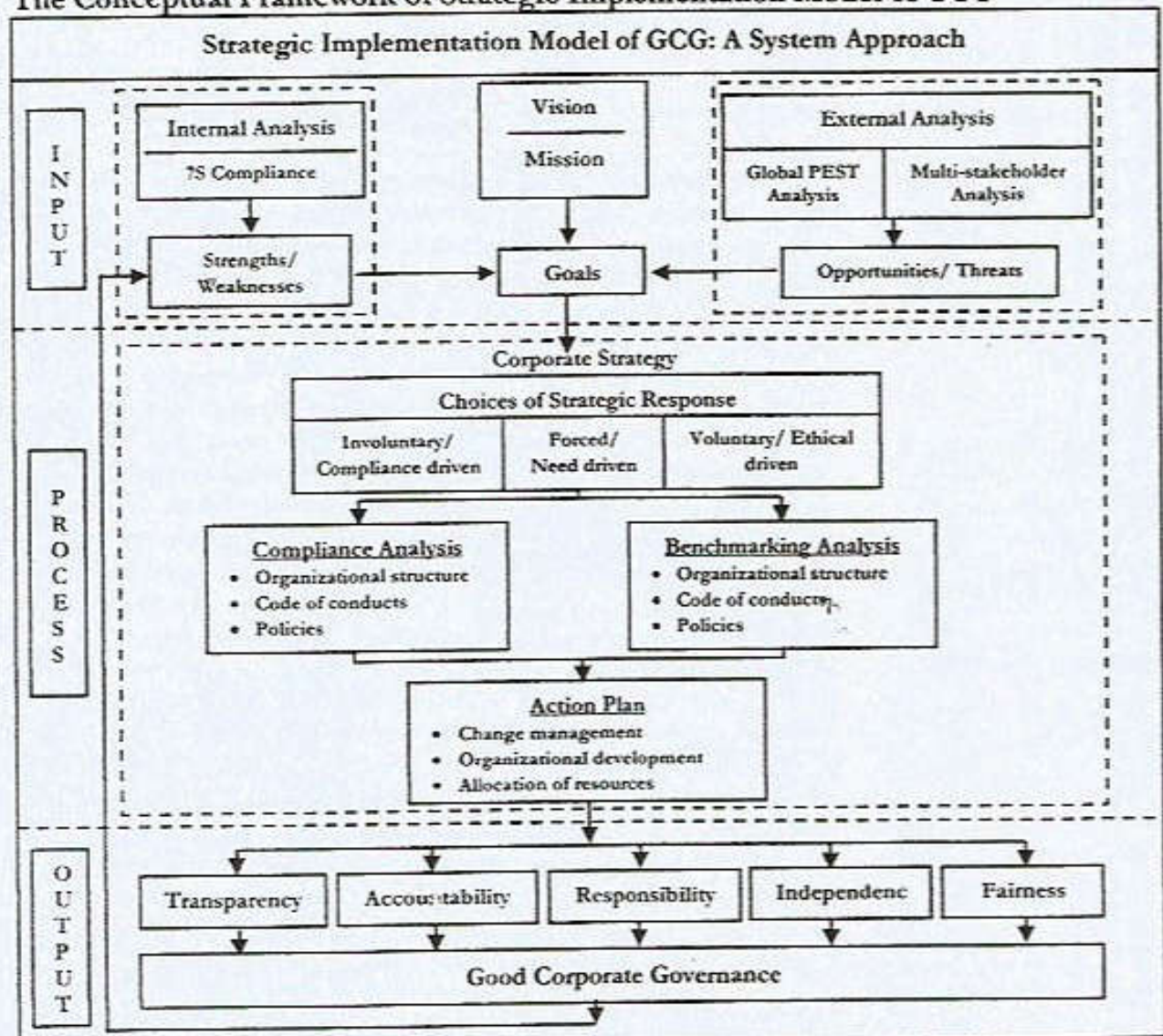
Source: Wibowo & Gunawan (2014)

### Step 3: Conducting Multi-Stakeholder Analysis

Stakeholder's analysis aimed to identify and understand multiple expectations of the many stakeholders of the company. This analysis helped to provide understanding on the relationships between the company and the groups of stakeholder with which the company must interact. In order to do a complete procedure of stakeholders analysis, Frederick et al. (1992) & Weiss (2006) suggested the following series of task: map stakeholders relationships, map stakeholders coalitions, assess the nature of each stakeholder's interest, assess the nature of each stakeholder's power, construct a matrix of stakeholder moral responsibilities, develop specific strategies and tactics, and monitoring shifting coalitions.

Figure 1

The Conceptual Framework of Strategic Implementation Model of GCG



Source: Wibowo & Gunawan (2014), adopted from the strategic management model of David (2000)

In order to fit with real situation faced by ASGR, the procedure can be focused on mapping the stakeholder relationships and assessed the nature of each stakeholder's interest and power. Particularly, the analysis should include examination on the stakeholder's expectation on GCG implementation. The completion of these tasks allowed for identification of the key stakeholders of the company, whom the company must pay a full attention and proper response. The key stakeholders were ones with high level of pressure



and high degree of difficulty to satisfy. Table 2 shows the resume of stakeholder's analysis of ASGR.

It is presented in Table 2 that the key stakeholders were shareholders/investors and creditors of the company. Therefore, GCG implementation in ASGR was expected to strengthen the shareholders/investors and creditors trust and continued to support the company. GCG implementation was also expected to raise corporate reputations and images among the other stakeholders. In connection to this matter, it is important to communicate and disseminate the progress of GCG implementation to all of the stakeholders.

**Table 2**  
**Multi-Stakeholder Analysis of ASGR**

Stakeholders	Primary Stakeholders			
	Power	Level of Pressure	Expectation	Degree of Difficulty to Satisfy
Customer & Distributor	Bargaining power to buy competitor's product	High, price sensitive market	1. Quality assurance services 2. Fair price	Low, ASGR had a good quality of customer services
Supplier	Supplying competitors	Low, ASGR had good partnership and credibility	Timely payment as contracted.	Low, ASGR had a good management and credibility
Creditor	1. Collect debts return 2. Legal rights to acquire collateral	Medium to high, 80% of US and Japan creditors had long periods of final maturity date (2004, September)	Timely debts return	High, macroeconomic situation, especially instability of exchange rate
Shareholder & Investor	1. Voting rights 2. Rights of information 3. Rights to examine corporate documents	High, especially majority shareholder (Astra International, 79.09%)	1. Fair and satisfied return on investment 2. Increasing value of share price 3. GCG implementation	High, 1. Indonesia's macroeconomic condition in the year 2000 was instable 2. ASGR has not implement GCG yet
Employee	1. Stop working 2. Protest	Low, high employee satisfaction	1. Fair salary and wages 2. Comfortable working environment	Low, ASGR had a good human resources management and corporate culture
Competitor	1. Innovation 2. Lower prices	High, especially foreign competitors	1. Higher market share 2. Higher industrial growth.	Low, 1. High growth in IT industry 2. Fair industry rivalry

To be continue Table 2

Secondary Stakeholders				
Stakeholders	Power	Level of Pressure	Expectation	Degree of Difficulty To Fulfill
Government	1. Issuing regulations 2. Business permit	Low, ASGR always comply with regulations	1. Comply with regulations 2. Increase tax income 3. Generate economic growth	Low, ASGR has proved its commitment to comply with government regulations
Public	Give appreciation on corporate action	Low, ASGR had no consumer products	Promote society's welfare	Low, ASGR had aproven social responsibility
Business Support Group	Use resources to influence corporate policies	Low, ASGR had no specific dependency	Deliver products /services that synergize with their business	Low, ASGR had an open management policies on partnership
Media	Publish negative issues related to society	Low, ASGR had no consumer products	Serve public's rights of information	Low, ASGR had a good public relation
Social Activist Group	1. Get public support 2. Lobbying the government on regulations/ permits	Low, ASGR had no consumer products	1. Monitor corporate actions and policies related to regulations and business ethics 2. Promote needs of society	Low, 1. ASGR had a good public relation 2. ASGR had a good social responsibility

Source: Wibowo & Gunawan (2014)

#### Step 4: Conducting 7S Compliance Analysis

One of the most powerful tools to do internal analysis is 7S Analysis of Boston Consulting Group. Another good measure is the Corporate Governance Scorecard (Strenger, 2002). In this study, we used a special tool of 7S analysis which is useful to observe the degree of GCG implementation. The tool is called 7S Compliance analysis which was developed by PricewaterhouseCoopers (Barth et al., 2001). The use of this tool for the case of ASGR is detailed in the following. This analysis comprised of examination on the company's seven internal factors of strategy, structure, system, style, staff, skills and share values. This step was expected to identify some areas of strengths and weaknesses with regard to the degree of GCG implementation in the company.

The strategic intent of ASGR was named "5C" which represents its commitment toward the Customer, Competitiveness, Competency, Collaborative, and Core Values. The strategy of ASGR was clearly defined and relevant with the vision and mission of ASGR. Importantly, one element of the strategic intent, the Core Values, was supportive toward GCG implementation. Practicing clean business and growing with innovation and excellence were parts of the Core Values of ASGR. However, with regards to its structure, ASGR needed to identify more clearly the roles and authorities of Board of Commissioner's and Director's. This was indicated by no assignment on the required

committee under GCG implementation such as the independent commissioner's, audit committee, remuneration committee, and nomination committee. Furthermore, the absence of independent commissioner's was also a clear indication that the structure did not conform to GCG requirement of independency.

A review toward the quality of the systems suggests that there were some areas that need to be improved. It was true that the company had the functions of internal audit and risks assessment, as well as internal procedures to develop policies related to remuneration and nomination at the top management level. However, those practices were not yet comply with the requirement of GCG. For example, under GCG, all of those functions should be supervised by the appointed members of Board of Commissioner's whom belong to the related committee. Next, with regard to the style of the company, there were as well some areas that need to be improved. These were especially related with the issues of transparency and equal treatment to all shareholders.

The company had regularly and timely reported its annual reports, however the reports did not contained several information such as the remuneration of top management, which is required by GCG. Furthermore, there were no such clear internal procedures that ensure the equal treatment of all shareholders. An indication of support toward this equal treatment policy was only appeared from the roles of Corporate Secretary.

The qualities of the staff and their skills were good, indicated by the fact that most of the staff were graduated from higher education. Also the company had a quite large amount of budget to do regular training to the staff. These were in support to the intention of the company to implement GCG. The share values of the company, particularly which promotes clean business practices and nurturing innovation were also indication for the readiness of the company to conduct GCG principles.

Table 3 shows the resume of 7S Compliance analysis. To summarize, the areas of strength of ASGR with regard to GCG implementation included the strategy, staff, skills, and share values of the company. In the other hand, the areas of weakness of ASGR were its structure, system, and style.

**Table 3**  
**Resume of 7S Compliance Analysis of ASGR**

Corporate Governance Issue	Rating		
	Good	Need Improvement	Poor
1. Strategy	○		
2. Structure			
2.1. Roles and authorities			○
2.2. Independency			○
3. System			
3.1. Audit and risk management		○	
3.2. Remuneration		○	
3.3. Nomination		○	
4. Style			
4.1. Transparency (annual report)		○	
4.2. Equal treatment to all shareholders		○	
5. Staff	○		
6. Skills	○		
7. Share values	○		
<b>Total Performances</b>		○	

Source: Wibowo & Gunawan (2014), adopted from GCG implementation model of PT. Timah, Tbk. as designed by PricewaterhouseCoopers (Barth et al., 2001)

### Step 5: Conducting SWOT Analysis

Based on the strengths and weaknesses described on step 2, and the opportunities and threats described on steps 3 and 4, one could generate inputs to choices of strategic response (Table 4).

Table 4

#### SWOT Analysis of ASGR

	Opportunities	Threats
Strengths	<p><u>S-O strategy:</u></p> <ol style="list-style-type: none"> <li>1. Use own resources to develop a model of GCG implementation, with regard to the requirements of the government</li> <li>2. Build good communication with all stakeholders regarding the progress of GCG implementation</li> </ol>	<p><u>S-T strategy:</u></p> <p>Continue to emphasize the existing clean business practices</p>
Weaknesses	<p><u>W-O strategy:</u></p> <p>Focusing the current development of GCG implementation on the weakness areas of structure, system, and style</p>	<p><u>W-T strategy:</u></p> <p>To be more cautious in doing business, including in serving the various needs of customers, and selecting the right business partners</p>

Source: Own study

### Step 6: Analyzing the Strategic Response

After having some set strategies needed for GCG implementation, the next step to proceed was to identify the company's strategic response. On determining its strategic response, the company should consider its level of commitment to minimize the gap between company's performance and its stakeholders' expectations. In this regard, there were three kinds of optional response (Frederick et al., 1992): forced response, involuntary response, and voluntary response.

Forced response is company's response that merely based on the stakeholders forces toward GCG implementation. This kind of response is regarded as need driven motive. Next, involuntary response is company's response that is dedicated only to meet legal compliance. The involuntary response is regarded as compliance driven motive. Lastly, a voluntary response is company's response that is based on its own commitment toward the GCG principles. This voluntary response usually appears in the form of self-regulation or benchmarking toward the best practices of GCG implementation. This kind of response is regarded as ethical driven motive.

A thorough examination toward the gap between company's performance and its stakeholders' expectations showed a big challenge for the company to fill up the gap. The key stakeholders of ASGR had a high expectation on GCG implementation (Table 2), while on the other hand there are some internal factors that needed to be improved by ASGR (Table 3). Driven by the company's high appreciation on clean business practices and supported by its strong culture of innovation, ASGR decided to have a best model of GCG implementation for the company. As a result the right strategic response for ASGR was the voluntary response. This decision, in the case of ASGR, led to the option to do benchmarking toward global best GCG practices, instead of doing compliance analysis.

### Step 7: Benchmarking Analysis

There are six steps of benchmarking process, as follows:

1. Identifying GCG issues to be benchmarked and their key performance variables. This can be done by breaking down each internal factor that needs to be improved as resulted in the 7S Compliance Analysis (Table 3).

Key performance variables to measure improvement in the organization structure (Board of Commissioner's and Director's) were:

- a. The effectiveness of both Board of Commissioner's and Director's roles and authorities;
- b. The independency of both Board of Commissioner's and Director's to do their roles and authorities.

Key performance variables to measure the quality of audit system were:

- a. The effectiveness of audit system;
- b. The independency of Audit Committee to do its supervision on financial and other internal systems.

Key performance variables used to measure the quality of remuneration system were:

- a. The effectiveness of both Board of Commissioner's and Director's remuneration systems;
- b. The transparency of both Board of Commissioner's and Director's remuneration packages.

Key performance variables to measure the quality of nomination system were:

- a. Recruitment of both Board of Commissioner's and Director's members must be selective and objective;
- b. The availability of the formal performance appraisal of both Board of Commissioner's and Director's members;
- c. Accommodation of minority shareholders aspirations.

2. Identifying benchmarked companies.

The benchmarked companies were identified by these categories:

- a. Companies that had been succeeded in implementing their corporate governance system according to international best practices. Study focused on the design of the organization structure of Board of Commissioner's, Director's, Independent Commissioner, Audit Committee, Remuneration Committee, Nomination Committee, as well as on the transparency of remuneration packages. The study noticed the differences in the business nature and environment of the benchmarked companies, including the legal environment. For instance, not all countries applied two-tier systems of governance like in Indonesia.
- b. Companies that had excellent business performances, in terms of its financial performances.

Survey on the annual reports of companies available on the internet suggested three benchmarked companies that fit the categories. They were Unilever NV & PLC, Siam Cement, and BP Amoco. Unilever was chosen to be one of the benchmarked companies since it had a good organizational structure and also because it applied two-tier system of governance. Siam Cement was the winner of GCG Competition held by Institute of Internal Auditors of Thailand in the year 2000. BP Amoco was chosen since it provides a good model for disclosure of the remuneration package.

3. Measuring the key performance variables of the benchmarked companies (see Table 5).

Insert Table 5 here.

4. Measuring ASGR existing key performance variables (see Table 3).

5. Identifying the performance gaps.

**Table 5**  
**Resume of Benchmarked Key Performance Variables**

Key Performance Variable	Unilever	Siam Cement	BP Amoco
Independent Commissioner's	11 from 31 total members of Board of Commissioner's (35%). They were called Advisory Director's	4 from 13 total members of Board of Commissioner's (30%)	14 from 22 total members of Board of Commissioner's (63%)
Audit Committee	Available	Available, called Audit & Legal Committee.	Available, consisted of 6 Independent Commissioner's
Remuneration Committee	Available	Available	Available, consisted of 6 Independent Commissioner's
Nomination Committee	Available	Available	Available.
Transparency of remuneration	None	None	Available in form of details remuneration packages
Other committee	External Affairs & Corporate Relations Committee	None	1. Chairman's Committee, consists of President of the Board and all Independent Commissioner's. The responsibility was on reviewing organization plans and evaluating total performances 2. Ethics and Environment Assurance Committee, consisted of 6 Independent Commissioner's
Design of Organization Structure	Functional, geographical and product approaches	Functional approach	Geographical approach

Source: Wibowo & Gunawan (2014)

By comparing Table 3 and Table 5, one could identify the performance gaps which take place on the ASGR's organizational structure, code of conduct, and policies on GCG.

6. Prepare the new structure, system, and policies, as follows:

a. Organization Structure

a.1. Structure of Board of Commissioner's:

- 1) President Commissioner;
- 2) Vice President Commissioner (member of Audit Committee);
- 3) Commissioner's (member of Remuneration Committee);
- 4) Commissioner's (member of Nomination Committee);
- 5) Independent Commissioner's (Chairman of Audit and Legal Committee);
- 6) Independent Commissioner's (Chairman of Remuneration Committee);
- 7) Independent Commissioner's (Chairman of Nomination Committee).

#### a.2. Roles and Authorities of Board of Commissioner's:

- 1) Evaluate and authorize corporate strategic plan;
- 2) Oversee corporate business practices in order to verify that the corporation is well managed;
- 3) Determine critical risks and ensure appropriate risk management system;
- 4) Evaluate and authorize succession mechanism, including appointment, remuneration, and if it is necessary, authorize replacement of Director's member;
- 5) Evaluate investor and shareholder relation program;
- 6) Evaluate accuracy and independency of internal control and information management system.

#### a.3. Board Independency

To ensure the board independency, Independent Commissioner's should not have any affiliation with majority shareholder or other executives. The recruitment must be based on their experience and expertise. Independent Commissioner's was 43% of total member. It was a moderate portion compare to the minimum international standard (30%) or 3 persons as mentioned on Cadbury Report. The Board supposed to be able to exercise its influences and voting rights effectively.

#### a.4. Structure of Director's:

- 1) President Director, Director of IT Solution Division;
- 2) Vice President Director, Director of Documents Solution Division;
- 3) Director of Finance and Business Development;
- 4) Director of Human Resources Development;
- 5) Corporate Secretary

#### a.5. Roles and Authorities of Director's

- 1) The major responsibility of Director's is to do a strategic planning, as well as to execute and manage the company according to direction of the approved strategic plan. In order to do that, Director's could hire independent professional or prepare a special committee.
- 2) Responsibilities Corporate Secretary are:
  - Prepare for shareholders list;
  - Attend Director's meeting and make minutes of meeting;
  - Manage the General Shareholders Meeting;
  - Prepare information of corporate performance and governance and disseminate it to all stakeholders.

#### a.6. Committees

##### 1) Audit and Legal Committee

The committee helps to oversee the financial statements and execute financial controls. Also, it is responsible for monitoring the compliance with law, regulations and corporate code of conduct.

##### 2) Remuneration Committee

The committee deals with compensations and benefits of the board and executives. This committee should be composed of Independent Commissioner's.

##### 3) Nomination Committee

The committee identifies and recruits new members of the board and also manages the process of performance appraisal of individual board members.

## b. System

### b.1. Audit and Legal System

The independency of Audit and Legal Committee is shown as follow:

- 1) Lead by Independent Commissioner's;
- 2) Other members could be recruited from independent outside party;
- 3) At least one of its members has expertise in accounting and financial.

This committee has authority to investigate all subject matters within its scope of responsibility, full access is given and has direct coordination with executives, also has independency to invites board and executives member in its meeting.

### b.2. Remuneration System

The disclosure of board and executives remuneration package should comply with international best practices. This also will be beneficial for shareholders as ones who have rights to know how the board and executives get their compensations from the company's resource. But, it also has to be protected from any violence to the Board and the Executive privacy rights. So, it was recommended to disclose it in term of certain interval amount per year. Furthermore, it should describe the percentage of basic compensation, variable bonus, benefits, stock options and other long-term incentives. This was practiced in BP Amoco. The remuneration package should admit if the major portion comes from the stock option program (McKinsey, 2000).

### b.3. Nomination System

Major responsibility of Nomination Committee includes recommendation for re-nomination of Board members based on their individual contributions and performances. The appraisal system covers score of attendance, readiness, participation and trustworthiness. The committee also work to ensure that the board has diversity in expertise and experiences to make the board work effectively and efficiently. In practice, each member should apply for re-nomination on every working period.

## c. Accommodation of Minority Shareholders Aspirations

In order to accommodate minority shareholders aspirations, a nomination mechanism should be developed to allow significant rights of minority shareholders to participate in the appointment process of the board members. This point is valid especially in the mechanism to nominate and appoint the number of Independent Commissioner's.

### **Step 8: Preparing and Implementing the Action Plan**

It was recommended in this step to prepare for Change Management and Organizational Development approaches to integrate the new structures, systems, and policies into the existing systems of the company. In this phase, a set of purposeful actions should be conducted to disseminate the changes in corporate governance practices, and to get the needed support from all members of the corporation.

### **Step 9: Doing Evaluation of GCG Practices**

The internal evaluation will be officially conducted periodically by the board with regard to executive's inputs. The board could also invite outside independent consultant to submit their reviews and opinions. In this sense, participating in regular GCG competition, such as CGPI survey by IICG and SWA magazine, would be an advantage.

## V. CONCLUSION

The discussion part has explained how ASGR could develop its best model of GCG implementation by using the framework of the system approach presented in Figure 1. Based on the model, ASGR could be benefited from the implementation of GCG as a part of its corporate strategy. In other words, it enables the GCG implementation to take strategic role toward corporate long-run benefits and sustainability.



The nine steps of strategic implementation model have been considered as both internal and external aspects of implementations (Steps 1-5), and enriched with development of strategic response (Step 6), benchmarking analysis (Step 7), and action plan creation (Step 8). The model itself, as the nature and advantage of a system approach, will enable corporation to improve its future GCG practices and development (Step 9). An overall review toward the model suggests the availability to use the model as shown in Figure 1 as a generic model of GCG implementation.

The model suggested by this study adds new approach for GCG implementation. While traditional studies in this field are grounded on organization, finance, or business law theories, this study incorporates system approach and strategic management theories to the model. For business society, especially in Indonesia, the model could give practical viewpoint and guidance on the implementation of GCG principle in their organizations.

The results of this paper address some possible areas for further researches. For instance, studies of GCG implementation for other types of profit-oriented organization, such as non-public listed companies, government companies, family companies, and cooperations. Empirical studies on those types of organization with different ownership structures and forms are needed to verify the availability of the model suggested by this study.

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