

## Review of Corporate Governance as Part of Strategic Decision Making (Survey of State-Owned Companies Listed on the Indonesia Stock Exchange for The Period 2016-2019)

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**Abstract:** This study aims to analyze the dimensions of Good Corporate Governance in terms of managerial ownership, institutional ownership, and independent commissioner in state-owned companies listed on the Indonesia Stock Exchange (BEI) for the period 2016-2019. This research method uses descriptive statistical analysis while the population of this study is state-owned companies listed on the Indonesia Stock Exchange (BEI) in 2016-2019. The sampling technique in this study used purposive sampling and obtained 19 companies with a study period of 4 years in order to obtain 76 sample data. The results of this study indicate that managerial ownership as seen from the proportion of the number of shareholders from management who actively participate in company decision making (directors and commissioners) is below 1% and tends to decrease. Institutional ownership as seen from the shares of companies owned by institutions or institutions (insurance companies, banks, investment companies and other institutional ownership) is still the majority above 90%. The independent commissioners as seen from the proportion of the number of independent commissioners compared to the number of commissioners has reached 39% in supervising company management.

**Keywords :** Managerial Ownership, Institutional Ownership, Independent Commissioner.

### 1. Preliminary

#### 1.1. Research Background

Good Corporate Governance (GCG) is needed to encourage the creation of a market that is efficient, transparent, and consistent with statutory regulations (Hamdani, 2016). Good corporate governance is acceptable administration as a framework that manages the connection between the job of the leading group of magistrates, the job of chiefs, investors, and different partners. Great corporate administration is likewise alluded to as a straightforward cycle for deciding organization objectives, their accomplishments, and assessing their exhibition (Agoes, 2013; Duran, 2019).

GCG is a series of processes or policies that affect the management of a corporate which includes relationships with stakeholders, such as the board of directors, shareholders, management, employees, creditors and so on for the purpose of managing the company. Good corporate governance is one of the corporate's keys to increasing economic efficiency which focuses on optimizing the allocation or company resources that generate economic results for the welfare of shareholders and the attention and accountability of other stakeholders. The implementation of good corporate governance is required to support a few things, one of which is to urge organization the executives to carry on expertly, straightforwardly and proficiently and to advance the elements of the leading group of chiefs, top managerial staff and investors and shareholders. (Asitalia & Trisnawati, 2017).

Jensen and Meckling (1976) state that administrative proprietorship and institutional possession are the two fundamental corporate administration components that can be utilized to help control office issues.

Managerial ownership is the level of offers possessed by the executives who are effectively associated with the dynamic interaction (directors and commissioners) or all capital in the company. The way to minimize agency conflict in the company is by aligning the interests of management with the company's shareholders, namely with managerial ownership. In addition to being a company manager, management also plays a role as a shareholder of a company. Managerial ownership is the number of shares that are actively involved in making decisions in a company (Effendi M. A., 2009). If managerial ownership in the company is increased, organization the board will

in general attempt to improve execution to assist investors and themselves, to limit office issues (Lestari & Cahyonowati, 2013).

Institutional ownership is company shares owned by institutions or institutions (insurance companies, banks, investment companies and other institutional ownership). In general, institutions devolve obligation to specific divisions to deal with the organization's venture. The presence of an establishment that expertly screens the advancement of its venture causes an extremely undeniable degree of power over administration activities so the potential for misrepresentation can be smothered. The existence of institutional ownership in a company will encourage increased supervision of management performance to be more optimal. This is because institutional share ownership has the power or authority that allows it to support or reject the company's managerial performance (Mahadewi & Krisnadewi, 2017).

According to Widjaja (2009: 79), an autonomous leading group of chiefs is an individual from the leading group of magistrates who is named dependent on the goal of the GMS from parties who are not subsidiary with the primary investors, individuals from the top managerial staff and/or different individuals from the leading group of officials. The existence of an independent board of commissioners can better supervise management, so as to reduce fraud in presenting financial reports (Lestari & Yulianawati, 2015).

The most recent phenomenon that is being the public's attention is the submission of the financial report of PT Garuda Indonesia Tbk, it is said that the company has done window dressing, PT Garuda Indonesia Tbk has prepared financial reports by inflating revenue which should not be recognized as revenue. This began with the refusal of two Garuda commissioners to sign financial reports at the yearly comprehensive gathering of investors. What was considered a significant mistake was the acknowledgment of income from Garuda's contract with PT Mahata Aero Teknologi regarding the cooperation in the sale of in-flight connectivity services and in-flight entertainment and content management. As a consequence of the recognition of revenue from the contract, Garuda booked a 2018 profit of US \$ 5,018,308. The contract was drawn up on 31 October 2018 and last amended on 26 December 2018 and will be valid for 15 years. Assuming that these benefits are fixed benefits, Garuda claims them as income for the year. The reason is, it is in accordance with the Statement of Financial Accounting Standards (PSAK). Management argued using the accrual basis over the cash basis, that is, income can be recognized even though cash income has not been received. PSAK states that income from operating leases is recognized as income on a straight-line basis over the lease term. Leases generally involve the use of assets over the long term, so that the compensation received for the lease will be recognized as income through the allocation of income over the years of the lease. So, Garuda should have allocated compensation income for 15 years systematically (column.tempo.co, 2019).

The Financial Services Authority (OJK), the Indonesia Stock Exchange (IDX) and the Ministry of Finance (Kemenkeu) conclusively state that the financial statements of PT Garuda Indonesia Tbk (GIAA) for the 2018 financial year have violated the provisions of existing accounting standards. For this reason, after conducting long consultations with the umbrella agency for public accountants, OJK and the stock exchange, asked the company management to restate its financial statements. Not only for financial reports for the period ended December 2018, but also for interim financial reports for March 2019 (CNBC Indonesia, 2019).

In the restatement of the financial statements, Garuda recorded a loss, not a gain as previously reported. In the public presentation material delivered by Garuda in the disclosure of information on the Indonesia Stock Exchange (IDX), after an adjustment was made, the airline lost US \$ 175 million or the equivalent of Rp 2.45 trillion (exchange rate of Rp. 14,004 / US \$). There is a difference of US \$ 180 million from what is stated in the company's financial statements for the 2018 financial year. In 2018 the company reported a profit of US \$ 5 million or the equivalent of Rp. 70.02 billion (CNBC Indonesia, 2019).

PT Garuda Indonesia was declared to have violated OJK Regulation Number 29 / POJK.04 / 2016 concerning the Annual Report of Issuers or Public Companies and was given Administrative Sanctions in the form of a fine of IDR 100 million. In addition, all members of the Board of Directors of PT Garuda Indonesia are also subject to Administrative Sanctions in the form of Rp100 million each for violating Bapepam Regulation Number VIII.G.11 concerning the Responsibility of Directors for Financial Statements. Administrative Sanctions are also imposed jointly and severally amounting to Rp. 100 million to all members of the Board of Directors and Board of Commissioners of PT Garuda Indonesia (Persero) Tbk. who signed the Annual Report of PT Garuda Indonesia (Persero) Tbk. for the 2018 period because it was declared to have violated OJK Regulation Number 29 / POJK.004 / 2016 concerning the Annual Report of Issuers or Public Companies (Ministry of Finance, 2019).

Public companies are required to carry out good governance. If it is violated, it will clearly cause distrust to investors. The investor's distrust will have an impact on stock movements. The trend of Garuda shares was observed to decline after the April 24 General Meeting of Shareholders. Prior to the AGM, Garuda's shares were at the level of Rp525 per share. After the AGM, Garuda's share price closed at Rp. 500 per share, and continued to decline to Rp. 470 on April 29, 2019 (tirto.id, 2019).

### **1.2. Problem Identification**

What is the description of Managerial Ownership, Institutional Ownership, and Independent Commissioners in BUMN listed on the Indonesia Stock Exchange for the period 2016-2019

## **2. Literature Review**

### **2.1. Good Corporate Governance**

According to Agoes (2013: 101) good corporate governance is great administration as a framework that controls the connection between the part of the leading group of magistrates, the job of chiefs, investors, and different partners. Great corporate administration is likewise alluded to as a straightforward interaction for deciding organization objectives, accomplishing them, and assessing their exhibition. Meanwhile, as indicated by the Forum for Corporate Governance on Indonesia (FGCI), corporate administration is a bunch of guidelines that direct the connection between investors, organization supervisors, leasers, government, workers, just as other interior and outside partners identifying with their privileges and commitments. as such, a framework that controls the organization (Effendi MA, 2016).

According to (Tunggal, 2014) there are several elements contained in Good Corporate Governance, which consists of: shareholders, board of commissioners, board of directors, audit committee, company secretary, managers and employees, external auditors, internal auditors, other stakeholders (government, creditors, etc.)

The Good Corporate Governance mechanism used in this study is managerial ownership, institutional ownership, and an independent commissioner.

#### **2.1.1. Managerial Ownership**

According to (Boediono, 2005) managerial ownership is the percentage of votes related to shares and options owned by directors and managers of a company. Meanwhile, according to (Faisal in Mahadewi & Krisnadewi, 2017) managerial ownership is the shareholder of management who actively participates in making company decisions (directors and commissioners) as measured by the percentage of total shares owned by company management divided by the number of shares outstanding.

The managerial ownership variable in this study is proxied by the percentage of the total share ownership owned by the management of the total number of shares of the company in circulation.

#### **2.1.2. Institutional Ownership**

Institutional ownership is company shares owned by institutions or institutions (insurance companies, banks, investment companies and other institutional ownership). In general, institutions devolve duty to specific divisions to deal with the organization's venture. The presence of a foundation that expertly screens the improvement of its speculation causes an undeniable degree of authority over administration activities so the potential for misrepresentation can be smothered. The existence of institutional ownership in a company will encourage increased supervision of management performance to be more optimal. This is because institutional share ownership has the power or authority that allows it to support or reject the company's managerial performance (Mahadewi & Krisnadewi, 2017).

According to (Beiner et al., In Mahadewi & Krisnadewi, 2017) institutional ownership is the level of institutional share ownership in a company, measured by the proportion of shares held institutionally at the end of the year expressed as a percentage.

#### **2.1.3. Independent Commissioner**

The independent commissioners is part of the leading body of chiefs, which by and large has the assignment of regulating the organization's administration. Free officials can go about as middle people in questions that happen between inside administrators and supervise the strategies of the chiefs and give counsel to the chiefs. With the expanding extent of free sheets of chiefs, oversight of monetary reports will be more tight and more evenhanded, so extortion submitted by directors to control income can be limited and profit the board can be dodged. (Mahadewi & Krisnadewi, 2017).

Calculating the extent of officials in an organization should be possible by utilizing a level of the quantity of free magistrates contrasted with the quantity of chiefs. (Mahadewi & Krisnadewi, 2017).

## 2.2. Strategic Decision Making Process

Wheelen, T.L., and J.D. Hunger. (2012) great contentions can be made for utilizing either innovative or versatile modes (or consistent incrementalism) in specific circumstances. This book proposes, nonetheless, that most circumstances in the arranging mode, which incorporate the fundamental components of the essential administration measure, are the more judicious and the most ideal method of settling on essential choices. research shows that the arranging mode isn't just logical (self-evident) and less identified with political components than different modes, but at the same time is more proper for managing complex issues, and ecological changes. We consequently propose the accompanying eight stages in the essential dynamic cycle to improve key dynamic

1. Assess current execution brings about terms of
  - return on investment, profitability, etc., and
  - current mission, objectives, strategies, and policies.
2. Review corporate governance, namely: the exhibition of the leading group of magistrates and top administration of the organization.
3. Observe and survey the outer climate to decide key factors that offer ascent to promising circumstances and dangers.
4. Observe and assess the company's internal environment to determine strategic factors in the form of Strengths (especially core competencies) and Weaknesses.
5. Strategic analysis (SWOT) of factors for (a) the appropriate problem area and (b) review and revise the company and its objectives, if necessary.
6. Generating, evaluating, and selecting the best elective methodology in the investigation completed in sync
- 5
7. Implementing the chosen strategy through programs, budgets and procedures.
8. Evaluating the strategy actualized through the criticism framework, and control exercises to guarantee the base conceivable deviation from arranging.

## 3. Method of Implementation

### 3.1. Types of Research

This research method using descriptive method. To analyze the data descriptively, the results are displayed in the form of an average value, maximum value, minimum value or a graph related to the data under study.

### 3.2. Location And Time of Research

This exploration was led at state-claimed organizations recorded on the Indonesia Stock Exchange. The information utilized in the examination utilized the yearly report on the authority site of the Indonesia Stock Exchange and the site of each organization. At the point when the examination was completed in June 2020.

### 3.3. Data And Source of Data

In this examination, the objects of exploration are Managerial Ownership, Institutional Ownership, and the Independent Commissioners. The information source required in this exploration is auxiliary information. Optional information utilized in this examination is yearly budget summary information on state-possessed organizations recorded on the Indonesia Stock Exchange for the time frame 2016-2019.

### 3.4. Population and Research Sample

The population in this examination is the financial report of state-owned companies listed on the Indonesia Stock Exchange for the period 2016-2019. The method used in this study is purposive sampling method. The sample selection criteria in this study use the consideration that BUMNs are listed and have published financial reports for the period 2016-2019 on the Indonesia Stock Exchange.

### 3.5. Data Analysis Method

Information investigation utilizes graphic insights, to give an outline or depiction of information seen from the normal worth, standard deviation, difference, most extreme, least, aggregate, range, kurtosis, and skewness (slope distribution).

## 4. Results And Discussion

#### 4.1. Description of Managerial Ownership

In 2016 the average development of managerial ownership was 0.0296%, the company that has the highest managerial ownership level is PT. Waskita Karya of 0.3252%. Meanwhile, the one with the lowest managerial ownership value was PT. Semen Baturaja amounted to 0.000%. In 2017 the average development of company managerial ownership was 0.0252%, the company that had the highest level of managerial ownership was PT. Waskita Karya of 0.3252%, an increase from the previous year. Meanwhile, the one with the lowest score was PT. Perusahaan Gas Negara with a managerial ownership level of 0.000% which shows a decrease from the previous year.

Furthermore, in 2018 the average development of the company was 0.0137%, the company that had the highest level of managerial ownership, namely PT. Kimia Farma amounted to 0.1198%, an increase from the previous year. Meanwhile, the one with the lowest managerial ownership value was PT. Perusahaan Gas Negara by 0,000%, which shows a decrease contrasted with the earlier year.

In 2019 the average growth rate of the company was 0.0077%, the company that had the highest level of managerial ownership, namely PT. Krakatau Steel by 0.0254%. Meanwhile, the one with the lowest managerial ownership value was PT. Kimia Farma with a managerial ownership level of 0.000%.

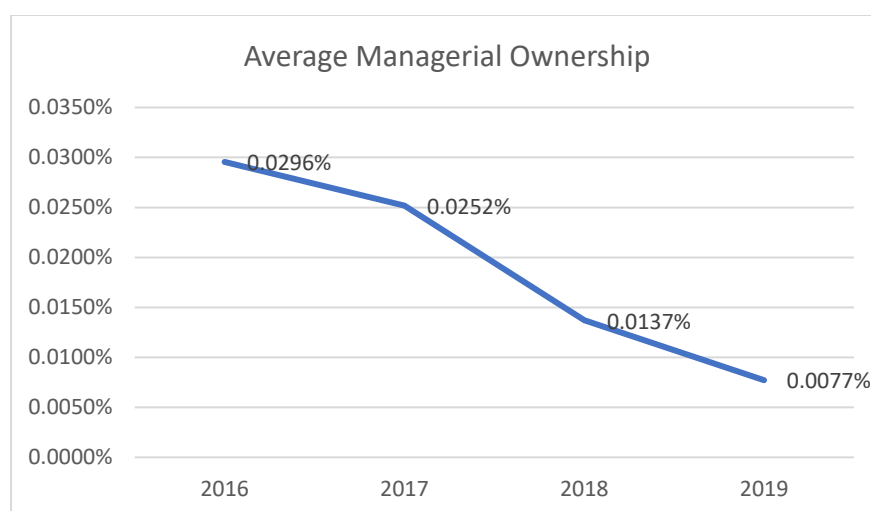


Figure 4.1.

Managerial Ownership Chart of BUMN Companies listed on the Indonesia Stock Exchange 2016-2019

#### 4.2. Description of Institutional Ownership

In 2016 the average institutional ownership rate was 93.7369%, the company with the highest level of institutional ownership was PT. Telekomunikasi Indonesia, amounting to 99.4352%. Meanwhile, the one with the lowest score was PT. Adhi Karya amounted to 66.8347%.

In 2017 the average institutional ownership of the company was 94.2343%, the company with the highest value was PT. Telecommunications Indonesia amounted to 99.4352%, an increase from the previous year. Meanwhile, the one with the lowest score was PT. Adhi Karya amounted to 82,1288% which decreased from the previous year. In 2018 the average development of the company was 93.3459%, the company that had the highest level of institutional ownership, namely PT. Telekomunikasai Indonesia amounted to 99.1040%, an increase from the previous year. Meanwhile, the one with the lowest institutional ownership value was PT Adhi Karya with a level of 70.9766%, which showed a decrease contrasted with the earlier year.

In 2019 the average development of the company was 93.9726%, the company that had the highest institutional ownership, namely PT Telekomunikasi Indonesia, amounting to 99.4050%. Meanwhile, the one with the lowest institutional ownership is PT. Adhi Karya with institutional ownership of 67,1062%.

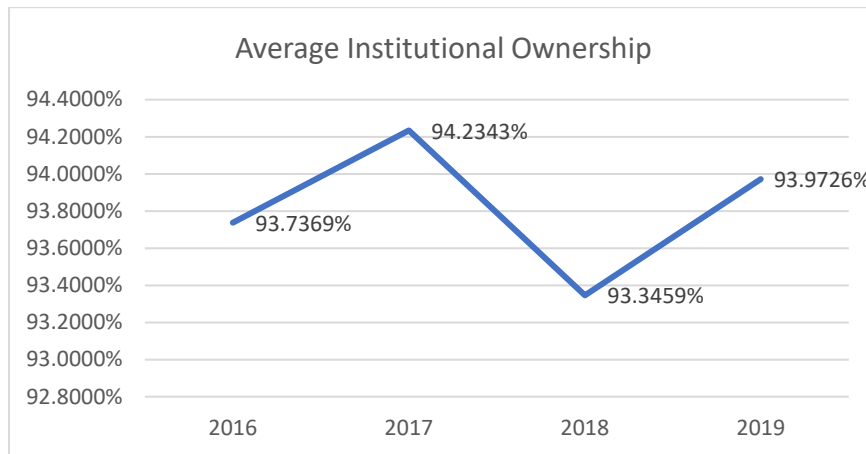


Figure 4.2.

Institutional Ownership in BUMN companies listed on the Indonesia Stock Exchange 2016-2019

**4.3. Description of Independent Commissioner**

In 2016 the average board of commissioners of the company was 37.1587%, the company that had the highest board of commissioners, namely PT. Semen Baturaja amounted to 60.0000%. Meanwhile, those with the lowest board of commissioners were PT. PP, with a rate of 16.6667%.

In 2017 the average development of the company was 37.2908%, which decreased from the previous year, the company that had the highest board of commissioners, namely PT Bank Negara Indonesia, amounting to 62.5000%. Meanwhile, the one with the lowest board of commissioners value was PT. Semen Baturaja amounted to 20.0000%.

In 2018 the average board of commissioners of the company was 39.8948%, the company that had the highest board of commissioners, namely PT. Bank Rakyat Indonesia amounted to 62.5000%, an increase from the previous year. Meanwhile, the one with the lowest score was PT. PP, with the board of commissioners of 16.6667%, which decreased contrasted with the earlier year.

In 2019 the average development of the company was 39.0517%, the company that has the highest commissioners, namely PT. Bank Rakyat Indonesia, amounting to 62.5000%, which decreased from the previous year. Meanwhile, the one with the lowest board of commissioners is PT. Semen Indonesia with a value of 28.5714%, which has increased compared to the previous year.

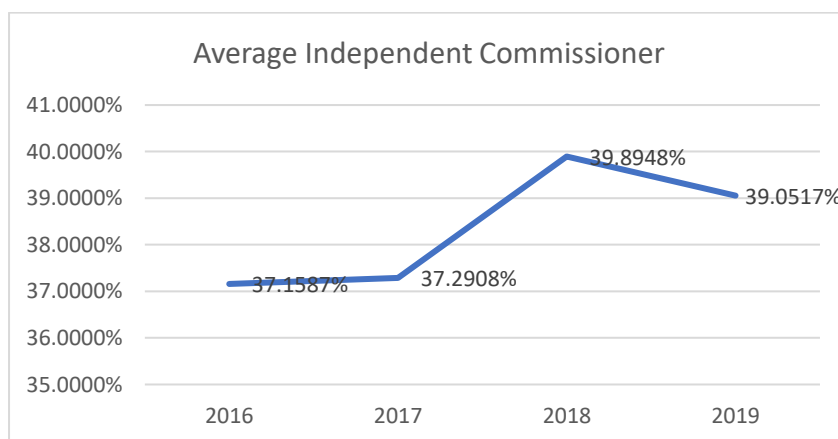


Figure 4.3.

Independent Commissioners of BUMN listed on the Indonesia Stock Exchange 2016-2019

**5. Conclusion**

1. Managerial ownership as seen from the proportion of the number of shareholders from management who actively participates in company decision making (directors and commissioners) is below 1% and tends to decrease.
2. Institutional ownership as seen from the shares of companies owned by institutions or institutions (insurance companies, banks, investment companies and other institutional ownership) is still the majority above 90%.
3. The independent commissioners as seen from the proportion of the number of independent commissioners compared to the number of commissioners has reached 39% in supervising company management.

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