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IMPLEMENTATION OF GOOD CORPORATE GOVERNANCE : LESSON FROM STATED OWNED ENTERPRISES IN INDONESIA

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ABSTRACT

Many oil and gas companies have not been efficient in managing general and operational costs incurred. Good corporate governance (GCG) needs to be applied as one of the concept for companies to be more efficient. One of the objectives of GCG implementation is to improve the efficiency, effectiveness and sustainability of an organization that can contribute to the creation of the welfare shareholders, employees and other stakeholders and is an effective solution in facing future organization challenges.

The purpose of this study was to analyze the influence of the principles of Good Corporate Governance (GCG) consisting of transparency, accountability, responsibility towards the performance of the company PT.PL as one of the biggest stated owned enterprises in Indonesia. This study uses Partial Least Square (PLS) Smart analysis. PLS is a multivariate analysis that is used to analyze relationships between variables in a complex manner under 100 sample. The population in this study were workers at PT.PL. Sampling using the Purposive Sampling technique and obtained as many as 32 respondents

Based on the research, it was found that accountability and responsibility had positively influenced on the company performance. The transparency had no effect on the company performance because the implementation of GCG in Indonesia was generally stagnant. According to this, we are expecting that stated owned enterprises top management could pay more attention to GCG in Indonesia.

INTRODUCTION

Competition in the COVID-19 Era requires companies to work more efficiently and effectively. Companies are required to be able to process

important functions in a more professional manner. On the other hand, companies are required to exist in a very difficult global economic condition. Increasingly tighter competition causes companies to be able to increase competitiveness in order to maintain company survival. All types of businesses will face increasingly difficult challenges in the current era of COVID, companies must pay special attention to business opportunities and take advantage of corporate strategic management to identify and develop specific capabilities and competencies owned by companies with the aim of gaining competitive advantages and improving performance.

Firm value is very important because it reflects the company's performance which can affect investors' perceptions of the company. Firm value is influenced by two factors, namely internal and external factors. Internal factors are a set of variables that the company can control, while external factors cannot be controlled by the company. In oil companies, one of the external factors that can affect the company's performance is the world crude oil price. According to the Indonesia Petroleum Association (IPA) in Indonesia's Upstream Oil and Gas Portrait, since mid-2014 the world price of crude oil (crude oil) has fallen by around 60%. The downward trend in oil lasted until the end of 2016, even until now in 2020. The fall in world oil prices was a blow to oil and gas producing countries, including Indonesia. This picture show the decrease of oil Price from 2014

Picture 1. The Decrease of Oil Price from 2014

Source : Ministry of Energy, Indonesia

Along with the decline in ICP from 2014 until now, many oil companies in Indonesia were affected by this condition, one of the state-owned oil companies, namely PT.PL experienced a sharp decline in performance. Due to the inefficiency of oil and gas companies, management needs to control the costs incurred in order to be more efficient with good corporate governance, also known as Good Corporate Governance (GCG). One of the objectives of implementing GCG is to increase the efficiency, effectiveness and sustainability of an organization that contributes to the creation of the welfare of shareholders, employees and other stakeholders and is an elegant solution in facing future organizational challenges. Therefore, the interested parties called stakeholders have a role in the corporate governance system or GCG.

Management is an agent who must act to implement GCG, so that stakeholder orientation to increase profitability and efficiency and company value can be achieved. Based on the background of these problems, the author will conduct research on how the influence of the principles of Good Corporate Governance (GCG) on the company performance of PT. PL. Especially the influence of transparency, accountability and responsibility through performance of the company.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

According to Hamdani (2015) transparency contains elements of disclosure and provision of information in a timely, adequate, clear, accurate and comparable manner and is easily accessible to stakeholders and the public. The principle of transparency in carrying out the decision-making process and disclosing material and relevant information about the company. Transparency is a commitment to ensure the availability and disclosure of important information for interested parties regarding the financial condition, management and ownership of the Company in an accurate, clear and timely manner. Transparency can be defined as the openness of information, both in the decision making process and in disclosing material and relevant information about the company. (Arief, 2009; Muhammad et al., 2019; Munir et al., 2019; Noorollahi et al., 2019)

According to Ministry Stated Owned Enterprises Regulation No. Kep-117/M-MBU/2002 accountability, namely clarity of functions, implementation and accountability of the Organs so that company management is carried out effectively and responsibility, namely conformity in the management of the company to the laws and regulations and sound corporate principles;

Performance is something that is produced by organizations within the company, both profit-oriented and non-profit-oriented, in a certain period by referring to the standards set. The company's performance should be a measurable result and able to describe the condition of the company from various agreed sizes. Fahmi (2010) says that performance is the result achieved by an organization that is both profit-oriented and non-profit-oriented which is produced within a certain time period. Meanwhile, according to Mahsun (2013), Performance is a description of the level of achievement of the implementation of an activity / program that is made in a policy in realizing the goals, objectives, mission and vision of the organization as stated in the strategy of an organization. Meanwhile, according to Moeherino (2009), performance is a description of the level of achievement of the implementation of an activity program or policy in realizing the goals, objectives, vision and mission of the organization as outlined in the strategic planning of an organization. According to these literatures, we hypothesize that:

H1:The transparency has a positive effect on company performance.

H2:The accountability has a positive effect on company performance.

H3:The responsibility has a positive effect on company performance.

RESEARCH METHODS

The unit of analysis for this study are Stated owned enterprises under The Ministry of Stated Owned Enterprises, The Republic of Indonesia. We focused on the employees which are located in Jakarta. In total there are 307

employees in this category, and we plan to conduct a survey to the finance division on those company. Thus, those company as our unit of analysis where for PT.PL are represented by all of the finance division employees who knows better about the GCG and company performance. Our questionnaires were distributed by google form. By conducting several data collection methods, we are expecting that the data collection stage will be more effective and efficient. This study adopts an GCG instrument and Performance instrument. The instrument is measured by a 5-point scale (1= Weak, 2=Below Average, 3=Average, 4=Above Average, 5=Extraordinary). The employee was asked on his or her perception on how they evaluate GCG in the following areas: (1) transparency; (2) accountability; (3) responsibility; (4) performance; Thus respondents were requested to rate some statements about their perception about GCG and performance by placing them on a five-point Likert scale in which 1 meant "strongly disagree", 2 "disagree", 3 "neither agreeing nor disagree", 4 "agree" and 5 "strongly agree".

RESULTS AND DISCUSSION

We distributed questionnaires to 40 employees. We asked to the finance division located in Jakarta which has 40 employees but only 32 questionnaires was back. We conducted Partial Least Squares (PLS) for our structural model. PLS is a new approach to calculate Structural Equation Modeling (SEM), which is more suitable for small data set compared to Covariance-based SEM. PLS-SEM is more appropriate for a new developed-model to predict the causality among latent variables (constructs). For this study purpose, we used WarpPLS software to develop and test our model. We adopt Hair et.al (2001) suggestions on steps to analyze SEM data. Firstly, developing a theoretically based model using a confirmatory analysis. Secondly, constructing a path diagram causal relationships. And thirdly, converting the path diagram into a set of structural and measurement models.

For the first stage, we are doing a confirmatory factor analysis for each latent variable (construct). There are some indicators that we dropped due to lower loading factor (less than 0,6) and the significance level (more than 0.001) or the Cronbach's Alpha less than 0,7
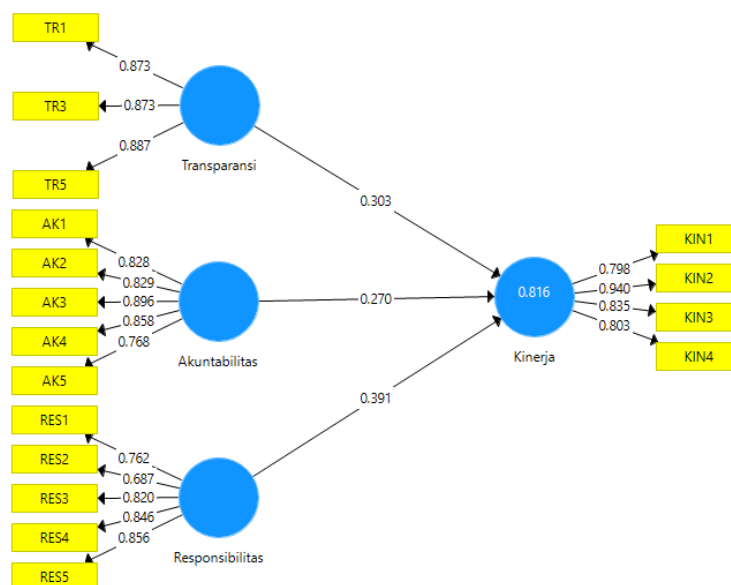
Picture 2. PLS analysis before dropping
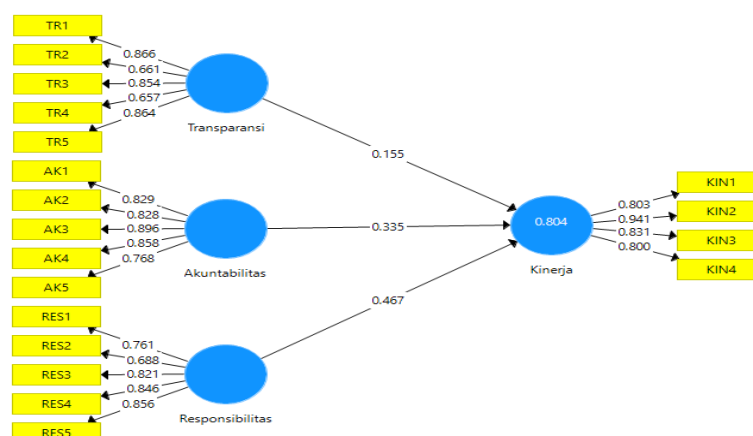
Source: PLS analysis, 2020 (before dropping)

We dropped 2 indicators (out of 5) for transparency construct. Hence, we improved the reliability and the validity of our measurement model as shown in the following table.

Picture3. PLS analysis after dropping

Source: PLS analysis, 2020 (after dropping)

The Following table will show the validity and reliability value for each indicator. In the table, the value of the TR 2 and TR 4 indicators has a value of 0,661 and 0,657. It shows that value of TR2 and TR4 are below the required value of Cronbach's Alpha which is less than 0,7.

Table 1. Cronbach's alpha of each indicators

No	Indicator	Transparency	Accountability	Responsibility	Performance
1	TR1	0,866			
2	TR2	**0,661**			
3	TR3	0,854			
4	TR4	**0,657**			
5	TR5	0,864			
6	AK1		0,829		
7	AK2		0,828		
8	AK3		0,896		
9	AK4		0,858		
10	AK5		0,768		
11	RES1			0,761	

12	RES2			0,688	
13	RES3			0,821	
14	RES4			0,846	
15	RES5			0,856	
16	KIN1				0,803
17	KIN2				0,941
18	KIN3				0,831
19	KIN4				0,800

Source: PLS analysis, 2020

The reliability and the validity of our measurement model for each variable as shown in the following table.

Table 2. Validity and reliability of the construct variable

No	Construct Name	Cronbach Alpha	Composite Reliability	Average Variance Extracted (AVE)
1	Transparency	0,852	0,910	0,957122
2	Accountability	0,892	0,921	0,961026
3	Responsibility	0,855	0,896	0,977773
4	Performance	0,865	0,909	0,754132

Source: PLS analysis, 2020

Table 2 shows that each construct has cronbach alpha score more than 0,7 and AVE score of more than 0.5 (Hair *et al.*, 1998; Noreen et al., 2019; Normalini et al., 2019; Ramakrishnan et al., 2020), and the composite reliability more than 0.7, which indicates that all the constructs have reached the internal validity and the consistency for further study. We also conducted discriminant validity analysis by using Fornell-Larcker Model as shown in Table 2 below. The diagonal line scores are drawn from the square-root of AVE for each construct, and the remaining cells are the correlation score between constructs. According to Fornell-Larcker (1981), a good discriminate construct is when its square-root of AVE is higher than the correlation score to other constructs.

For the second, we developed our measurement and structural model with the inner model test. Before we test our hypothesis, it is important to calculate the R square.This inner model test is carried out using the R Square test method. Where the R square value indicates the level of determination of the variable. In this study, the R square value of the performance variable was 0.817. This means that the contribution of the transparency, accountability and responsibility variables in explaining the performance variable is 81.7%, while the remaining 18.3% is explained by other variables outside of this study.

Table 3. Cross Loading Indicator Research

No	Indicator	Transparency	Accountability	Responsibility	Performance
1	TR1	0,873	0,713	0,708	0,719
2	TR2	0,873	0,719	0,779	0,689
3	TR3	0,887	0,788	0,746	0,846
4	TR4	0,745	0,828	0,762	0,720
5	TR5	0,633	0,829	0,546	0,726

6	AK1	0,744	0,896	0,665	0,667
7	AK2	0,681	0,858	0,579	0,678
8	AK3	0,739	0,768	0,599	0,633
9	AK4	0,831	0,602	0,762	0,706
10	AK5	0,466	0,373	0,687	0,529
11	RES1	0,587	0,643	0,820	0,671
12	RES2	0,688	0,684	0,846	0,743
13	RES3	0,760	0,657	0,856	0,716
14	RES4	0,641	0,696	0,730	0,798
15	RES5	0,770	0,685	0,846	0,940
16	KIN1	0,789	0,664	0,717	0,835
17	KIN2	0,714	0,741	0,570	0,803
18	KIN3	0,873	0,713	0,708	0,719
19	KIN4	0,873	0,719	0,779	0,689

Source: PLS analysis, 2020

Finally, we test the effect of the relationship between transparency, accountability and responsibility on performance. This test was carried out using the bootstrapping method through the Smart PLS version 3 application with a significance level of 0.05 or 5%. In Smart PLS, this effect test is measured by calculating the path coefficients for each path.

Table 4. Path Coefficient, p Significance Table.

	Original Sample (O)	Sample Mean (M)	Standard Deviation	t statistic	P Value
Transparency→Performance	0.303	0.304	0.183	1.658	0.098
Accountability→Performance	0.270	0.265	0.123	2.200	0.028
Responsibility→Performance	0.391	0.395	0.155	2.514	0.012

Source: PLS analysis, 2020

Moreover, according to our model firstly, we find that transparency has no significant effect on performance ($p<0.098$). Secondly, accountability has significant effect on performance ($p<0.028$). Finally, responsibility has significant effect on performance ($p<0.012$). In other words, this result confirms that accountability and responsibility has a positive effect on performance. This finding supports the argument from other research. Yunus and Hamid (2015) find that good corporate governance has a positive effect on performance. The transparency has no significant effect on performance. This finding supports the Forum for Corporate Governance in Indonesia and survey conducted by Mc. Kinsey & Co from 250 global investors from three continents: the US, Europe, and Asia, in mid-2000, it was known that the implementation of Good Corporate Governance (GCG) in Indonesia was at the lowest rank. The CLSA (Credit Lyonnais Securities Asia) survey at the end of 2004 put Indonesia in ranked 10th or worst in Southeast Asia for the

implementation of GCG, and the Standard & Poor surveys also stated that the implementation of GCG in Indonesia was generally stagnant. Business actors consider that GCG is only limited to compliance with regulations that does not have a direct impact on financial performance as in marketing activities. This is the reason why GCG is not optimal in terms of its implementation among Indonesian companies.

Tabel 5 Market Category Scores Good Corporate Governance in Asia Pacific

%	2012	2014	2016	2018	Change
1. Australia	-	-	78	71	(-7)
2. Hongkong	66	65	65	60	(-5)
3. Singapore	69	64	67	59	(-8)
4. Malaysia	55	58	56	58	(+2)
5. Taiwan	53	56	60	56	(-4)
6. Thailand	58	58	58	55	(-3)
7. Japan	55	60	63	54	(-9)
7. India	51	54	55	54	(-1)
8. Korea	49	49	52	46	(-6)
9. China	45	45	43	41	(-2)
10. Phillippines	41	40	38	37	(-1)
11. Indonesia	37	39	36	34	(-2)

Sources : *Asian Corporate Governance Association*, 2018

According to Suryanto A and Refianto (2019) the last survey conducted by the Asian Corporate Governance Association (ACGA) with a sample of 11 countries in Asia. International standards that need to be obtained must be at least 80%. When viewed from the results of the 2018 survey, Australia is a non-Asian country with the highest score at 71%, but it is still far from the international standard of reaching 80%. Meanwhile, Indonesia occupies the lowest position with a value of 34%. (Asian Corporate Association, 2018; Shabbir et al., 2019).

CONCLUSION, LIMITATION, AND SUGGESTION

This study aims to investigate the influence of the principles of Good Corporate Governance (GCG) on the company performance of PT. PL. Especially the influence of transparency, accountability and responsibility through performance. Prior literatures have been mentioned that GCG should have significant effect to company performance. Moreover, this research becomes important since we analyzed this phenomenon in stated owned enterprises, which has different characteristics from the private sector. Our finding supports our argument that accountability and responsibility are positively influenced the company performance. The transparency has no effect on performance because the implementation of GCG in Indonesia was

generally stagnant. According to this, we are expecting that stated owned enterprises top management could pay more attention to GCG. Last but not least, we recognize that the sample size could be improved for the next study. As during the pandemic situation, data collection is more complicated than in the normal period.

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