



IKATAN AKUNTAN INDONESIA



Recent Development and Direction of Research on Corporate Governance

Simposium Nasional Akuntansi XIX
Lampung, 26 September 2016

Prof. Sidharta Utama PhD
Universitas Indonesia
Fakultas Ekonomi dan Bisnis



IKATAN AKUNTAN INDONESIA



Outline

- Recent development of CG principles globally
- Recent development of CG rules in Indonesia
- Summary of CG research in emerging economies
- Comments on CG Research in Indonesia
- Direction for Future CG Research in Indonesia



IKATAN AKUNTAN INDONESIA



New OECD Corporate Governance Principles (2015)

Ensuring the basis for an effective corporate governance framework

The rights and equitable treatment of shareholders and key ownership functions

Institutional investors, stock markets, and other intermediaries

The Role of Stakeholders in corporate governance

Disclosure and Transparency

Responsibilities of the board



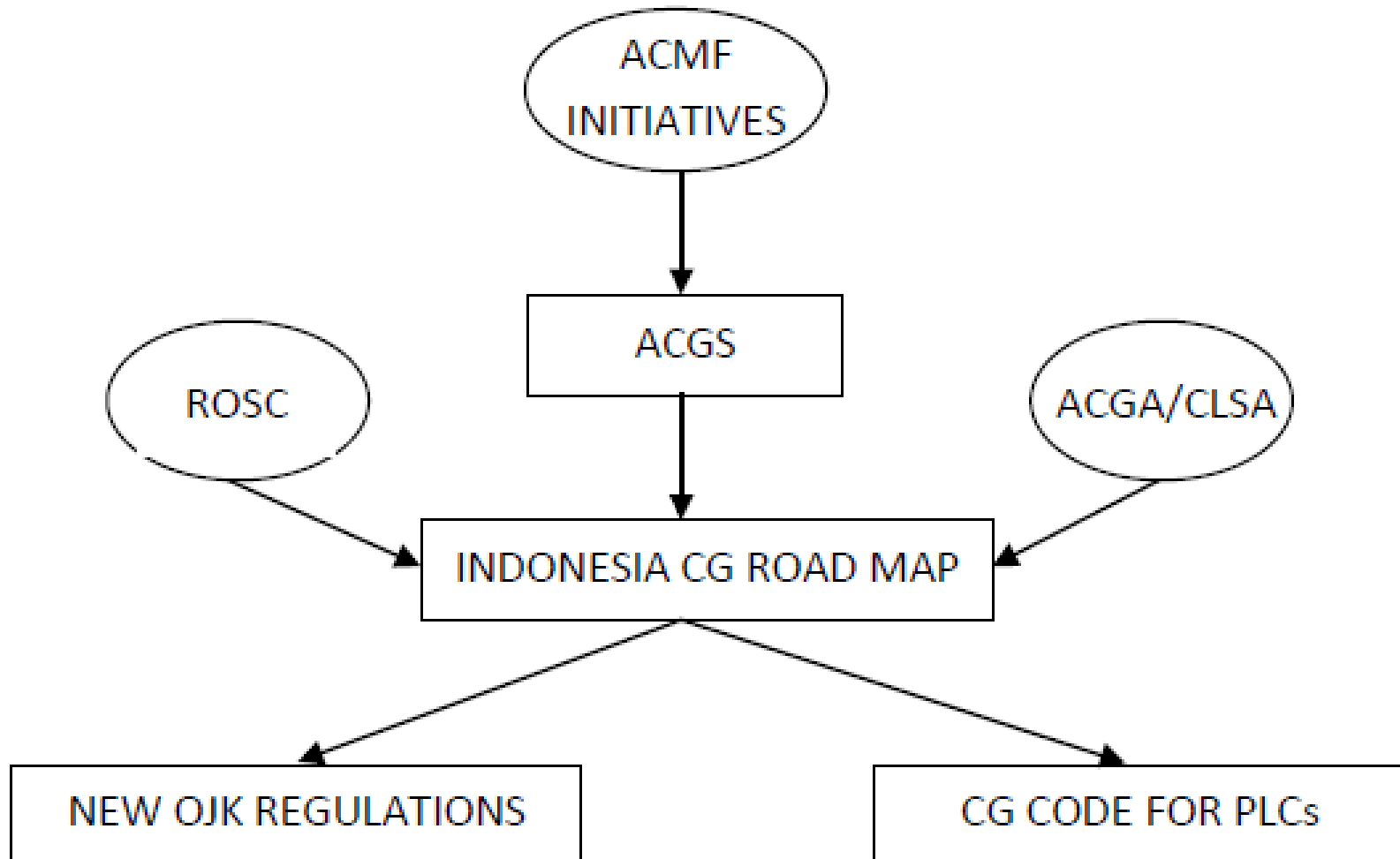
IKATAN AKUNTAN INDONESIA



Institutional investors, stock markets, and other intermediaries

- *“The corporate governance framework should provide sound incentives throughout the investment chain and provide for stock markets to function in a way that contributes to good corporate governance.”*
- Addressing CG role and the need of practicing CG for institutional investors, custodians/nominees, analysts, brokers, rating agencies and other intermediaries

Figure 1: The Process of Strengthening Regulatory Framework





IKATAN AKUNTAN INDONESIA



Recent CG rules enacted by OJK

- Launched Corporate Governance Roadmap
- Issued new rules/Revised existing rules applicable for public companies:
 - Audit Committee (December 2012)
 - Recommendation of appointment of external auditors
 - Annual Report (December 2012)
 - Disclosure of direct and indirect of controlling shareholder
 - More detailed disclosure of corporate responsibility
 - Disclosure of audit fee, non-audit fee
 - General Meeting of Shareholders (December 2014)
 - More detailed disclosure of notice of RUPS
 - Disclosure of summary of minutes of RUPS



IKATAN AKUNTAN INDONESIA



Recent CG rules enacted by OJK

- Board of Commissioners and Directors (December 2014)
 - Restriction on number of directorships in other companies for members of BOD & BOC
 - Number of meetings and joint meetings of BOD, BOC
 - Limitation on tenure of independent commissioner
 - Performance evaluation on committee under BOC and BOD
 - Board charters for BOC and BOD (disclosed in PLCs' web)
 - Code of ethics (disclosed in PLCs' web)
- Nomination and Remuneration Committee (NRC) (December 2014)
 - BOC responsible for nomination and remuneration functions, may be supported by NRC
 - Composition and tasks of NRC
 - Performance evaluation on members of BOC and BOD
 - Disclosure NRC charter and nomination and remuneration functions in AR/Web



IKATAN AKUNTAN INDONESIA

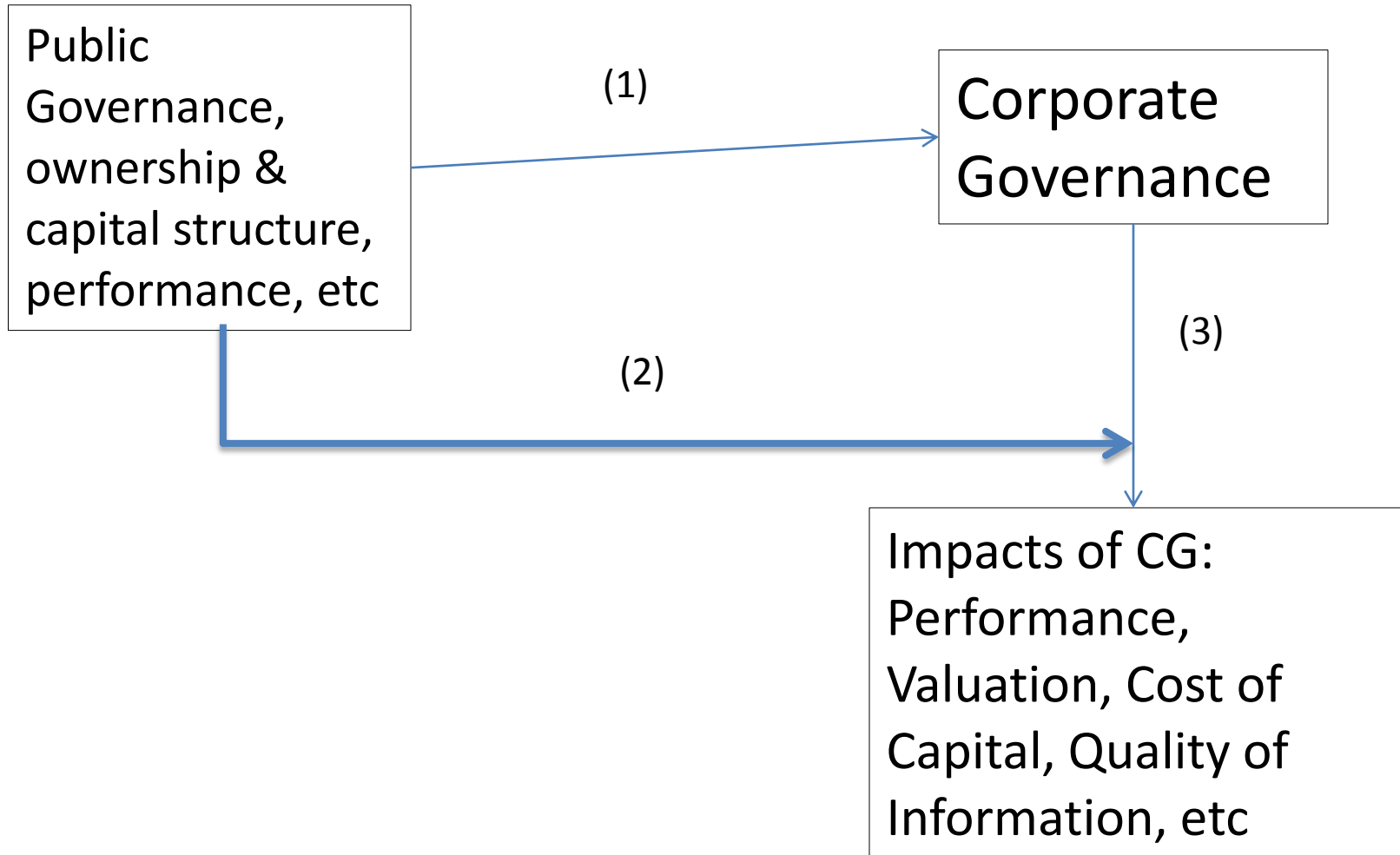


Recent CG rules enacted by OJK

- Website for public companies (June 2015)
- CG Code for Listed Companies (October 2015)
- Impose ‘Comply or Explain Rule’ to CG Code for listed companies, starting in year 2017



Summary of CG Research in Emerging Markets (Summarized from various studies)





IKATAN AKUNTAN INDONESIA



Comments on Existing CG Research in Indonesia

- Due to availability of data,
 - majority of studies focus on publicly listed companies. Very few research cover governance and the impact of the followings:
 - Bank (providing majority of funding)
 - State owned enterprises (have significant contribution in the economy)
 - Institutional investors and intermediaries
 - Few research focus on how corporate governance actually takes place



Comments on Existing CG Research in Indonesia

- Majority of studies focus on (3) while ignoring the endogeneity of CG practice (1) and the findings that the impact of CG is contingent upon public governance, ownership structure, and other factors (2)
- As a result, hypothesis development may not be accurate, research design is not valid, the power of the tests may decrease and the conclusion can be inaccurate.



IKATAN AKUNTAN INDONESIA



Different CG Environments of Indonesia and USA/UK

USA/UK

- Strong public governance
- Dispersed ownership structure – Agency problem type I

Indonesia

- Weak public governance
- Concentrated ownership with pyramid structure – Agency problem type 2
- Group affiliations are common



Implication of Different CG Environments on CG mechanism

USA/UK

- Implications:
 - PLCs have to practice good CG
 - Board of Directors: Majority should be independent (from key executives)
 - Managerial ownership: Employed to align management's interest with shareholders' interest.
 - Institutional ownership: Have the capacity and incentive to monitor management.

Indonesia

- Implications:
 - PLCs tend to practice poor CG
 - Controlling shareholders in substance determine members of BOC and BOD
 - Managerial ownership may actually represent ownership of controlling shareholders
 - Institutional ownership: Has different role from dispersed ownership structure. Multiple large shareholders may substitute the role of institutional investors



Direction for Future Research

- Needs to consider the endogeneity of CG
 - e.g., relation between Cash-flow right and Corporate Governance
- Consider the context of Indonesia CG environment when developing hypothesis relating to CG
 - e.g., the effect of BOC effectiveness on performance
 - May be subject to ownership structure
- When conducting multi-countries study, need to address the cross-countries variation in CG environment.



Direction for Future CG Research: Broaden the Coverage of Firms

- More governance research on:
 - SOEs
 - Banks
 - Employ banks' CG self-assessment
 - Governance role of banks
 - Integrated governance of financial conglomeration
 - Financial institutions (insurance, pension funds, mutual funds etc)
 - Fiduciary capacity: shall disclose governance and voting policies
 - Intermediaries: Custodians/Analysts, brokers, rating agencies, etc
 - Voting in line with beneficial owners
 - Disclosure of conflict of interests



Principal – Agent in SOE





IKATAN AKUNTAN INDONESIA



Governance Challenge in SOEs

- The performance results of SOEs ultimately are borne by public
- Government officials:
 - May pursue interest that is not in the best interest of the public
 - Incentive to monitor may be lacking
- If the challenge is not adequately addressed, SOEs may underperform relative to private companies



IKATAN AKUNTAN INDONESIA



Direction for Future CG Research: Focus on how corporate governance actually takes place

- Governance of Family controlled PLCs
- The impact of Multiple Large Shareholders on various governance mechanisms and performance
- Rights and equitable treatment of shareholders
 - Governance of RUPS: transparency, decision process (bundling, voting mechanism)
 - Shareholders' activism
 - Participation: Attendance and vote on decisions at RUPS
 - Shareholders agreement
 - Benefits and costs of pyramid structure
 - Insider trading: enforcement and disclosure



IKATAN AKUNTAN INDONESIA



Direction for Future CG Research: Focus on how corporate governance actually takes place

- Board responsibility

- Compliance with disclosure requirements on BOC and BOD
- The effect of ownership structure on the composition, qualification, resources, authority, activities of BOC and BOD
- Comparing tasks of BOC/BOD in the charter with actual tasks performed
- The impact of tenure and multiple directorship on performance
- Transparency and adequacy of nomination process of members of BOC and BOD
- Transparency and adequacy of performance evaluation on BOD, BOC and their members



Direction for Future CG Research: Focus on how corporate governance actually takes place

- Disclosure & Transparency, Internal Control
 - The impact of ownership structure and CG mechanism on audit quality (internal and external)
 - Determinants of audit fee and non-audit fee
 - Cross-countries study on the effects of country level factors (level of IFRS adoption, IAS, investor protection, rule of law) and firm level factors (audit quality, CG) on financial reporting quality
 - Disclosure on internal control and risk management



IKATAN AKUNTAN INDONESIA



Thank You