

THE EFFECT OF GOOD CORPORATE GOVERNANCE ON THE SUSTAINABILITY OF ELECTRIC COMPANY IN INDONESIA

Rio Afrianda¹, Veithzal Rivai Zainal², Indra Siswanti³, Lenny Christina Nawangsari⁴

¹Study Program Management, Economy and Business Faculty, Universitas Mercu Buana
Jl. Raya Meruya Selatan, Kembangan, Jakarta 11650

²Study Program Informatics, Computer Science Faculty, Universitas Mercu Buana
Jl. Raya Meruya Selatan, Kembangan, Jakarta 11650

adi.nurmahdi@mercubuana.ac.id, dewinusraningrum@mercubuana.ac.id, ardian@mercubuana.ac.id

Abstract – *This study aims to analyze the effect of Good Corporate Governance on the Sustainability of Electricity Companies in Indonesia. The research is based on the GCG Assessment Score from the company's annual report for the last three years. It was found that the aspect of commitment to the implementation of sustainable governance was increasing every year; the aspect of shareholder assessment and GMS decreases; Board of commissioners/board of supervisors increased; The assessment aspect of the Board of Directors decreases every year, and the value of other aspects increases every year. From the total GCG Assessment score of 89.559 in 2020, it is concluded that the implementation of GCG is in the very good category and has a positive effect on the company's sustainability.*

Keywords: *Good Corporate Governance*

INTRODUCTION

The issue of Good Corporate Governance is being hotly discussed, especially among economists & business people in Indonesia. The financial crisis that occurred in various countries, especially in Indonesia in 1997, which eventually turned into the Asian financial crisis, was seen as a result of the weak practice of Good Corporate Governance in Asian countries. The failure of several companies & the emergence of cases of financial malpractice due to the crisis are bad practices of Corporate Governance. Because of this, Good Corporate Governance has finally become an important issue, especially in Indonesia, which has been hardest hit by the crisis. In addition, the number of cases of violations committed by listed companies in the capital market which are handled by the Capital Market & Financial Institutions Audit Board of the Republic of Indonesia, shows the low quality of good corporate governance practices in our country.

In 1999, we saw countries in East Asia which were equally affected by the crisis began to experience recovery, except for Indonesia. It must be understood that global competition is not competition between countries, but between corporations in these countries. So winning or losing, winning or falling, recovering or remaining in a slump in the economy of a country depends on the respective corporations (Moeljono, 2005).

PT PLN as an electricity company with the largest assets in Indonesia is determined to participate and support the achievement of various formulations of the Sustainable Developments Goals (SDGs), by prioritizing the implementation of best practices of corporate governance. PLN is fully committed to implementing GCG practices by

Complying with all the latest laws and regulations, policies, guidelines, and company management rules to ensure the Company's healthy, quality, and sustainable growth. PLN ensures that all levels, starting from the Board of Directors, Upper Management, Middle Management, Basic Management to Executives, have a high commitment to implementing all rules and policies as part of efforts to improve the quality of the implementation of good corporate governance. The implementation of the GCG principles implemented by PLN, namely transparency, accountability, responsibility, independence, equality and fairness as reflected through GCG practices is expected to produce superior performance, integrity and sustainability. so as to provide optimal benefits and added value for shareholders, customers, employees, business partners, and other stakeholders. To strengthen the implementation of GCG, PLN issues various policies and carries out activities to strengthen the organization, improve services to customers, and improve internal control tools as illustrated in figure 1 (PLN 2020 Sustainability Report)

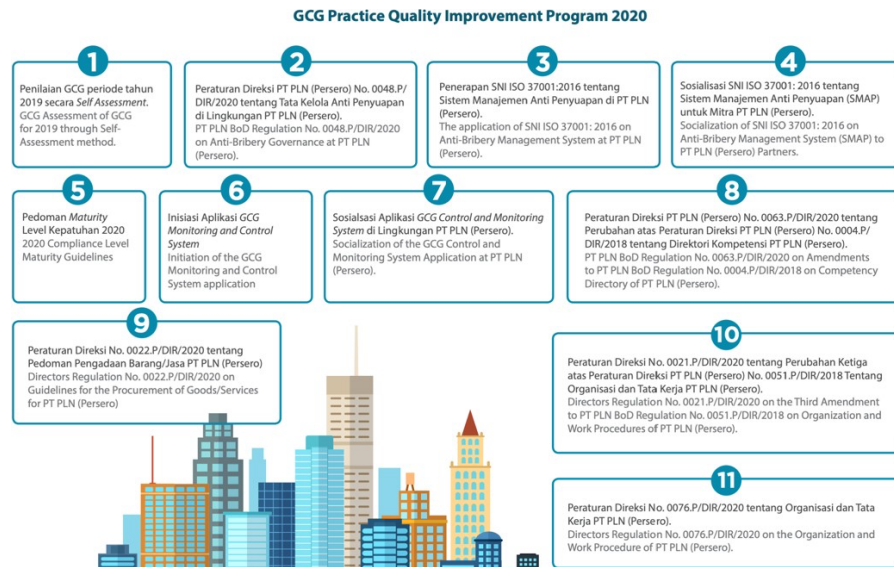


Figure 1 GCG Practice Quality Improvement Program 2020

In addition to socialization as a work program carried out by each owner of GCG business processes such as the Corporate Secretary, Compliance Division, Risk Management Division, CMO Division, and others, socialization is also carried out through the PLN Culture Program through a different theme every month. Like; 1. In August 2020, the theme of the PLN Cultural Program is 4 No's for Integrity; 2. In September 2020, the theme of the PLN Cultural Program is Together for PLN Risk Maturity 4.0.; 3. In October 2020, the theme of the PLN Cultural Program is ACTIVITIES to be the BEST; 4. In December 2020, the theme of the PLN Cultural Program is "GCG for Business Sustainability".

LITERATURE REVIEW

Two main theories related to corporate governance are stewardship theory and agency theory (Chinn, 2000; Shaw, 2003). Stewardship theory is built on philosophical assumptions about human nature, namely that humans are essentially trustworthy, able to act responsibly, have integrity and honesty towards others. This is implied in the fiduciary relationship that the shareholders want. In other words, stewardship theory views management as trustworthy to act in the best possible way for the public interest and stakeholders.

Meanwhile, agency theory developed by Michael Johnson, views that the company's management as "agents" for the shareholders, will act with full awareness for their own interests, not as a wise and prudent party and fair to shareholders. In subsequent developments, agency theory received a wider response because it was seen as more reflective of the existing reality. Various thoughts on corporate governance have developed by relying on agency theory where management is carried out in full compliance with various applicable rules and regulations.

Good corporate governance (GCG) is definitively a system that regulates and controls companies that create added value for all stakeholders (Monks, 2003). There are two things that are emphasized in this concept, first, the importance of the right of shareholders to obtain correct and timely information and, second, the company's obligation to make accurate, timely, transparent disclosure of all information on company performance, ownership and ownership, and stakeholders.

There are four main components needed in the concept of good corporate governance, (Kaen, 2003; Shaw, 2003) namely fairness, transparency, accountability, and responsibility. These four components are important because the application of the principles of good corporate governance has been consistently proven to improve the quality of financial reports and can also become an obstacle to performance engineering activities which result in financial statements not reflecting the company's fundamental values.

As an electricity company with the largest assets in Indonesia, the implementation of GCG principles has been carried out in the company such as transparency, accountability, responsibility, independence, equality and fairness as reflected through GCG practices. Can produce superior performance, integrity and sustainability, thereby providing optimal benefits and added value for shareholders, customers, employees, business partners, and other stakeholders (Company Financial Report, 2020).

The essence of corporate governance is the improvement of the company's performance through supervision or monitoring of management performance and the existence of management accountability to other stakeholders, based on the applicable rules and regulations framework. In the implementation of GCG implementation in the company, it is important for the company to carry out careful phasing based on an analysis of the company's situation and condition, and the level of readiness, so that the implementation of GCG can run smoothly and get support from all elements within the company. In general, companies that have been successful in implementing GCG use the following stages (Chinn, 2000; Shaw, 2003).

Preparation stages consists of 3 main steps: 1) awareness building, 2) GCG assessment, and 3) GCG manual building. Awareness building is the first step to build awareness about the importance of GCG and shared commitment in its implementation. This effort can be done by asking for help from independent experts from outside the company. Activities can be carried out through seminars, workshops, and group discussions. Awareness building is the first step to build awareness about the importance of GCG and shared commitment in its implementation. This effort can be done by asking for help from independent experts from outside the company. Activities can be carried out through seminars, workshops, and group discussions.

GCG manual building, is the next step after the GCG assessment is carried out. Based on the results of mapping the company's readiness level and efforts to identify priorities for its implementation, the preparation of a GCG implementation manual or guidelines can be prepared. Manual preparation can be done with the help of independent experts from outside the company. This manual can be distinguished between manuals for company organs and manuals for all company members, covering various aspects such as: Company's GCG Policy, GCG guidelines for company organs, Code of conduct, Audit committee charter, Disclosure and transparency policy, Risk management policies and framework, and Implementation roadmap.

After the company has a GCG manual, the next step is to start implementing it in the company. This stage consists of 3 main steps, namely: Socialization, it is necessary to introduce to all companies' various aspects related to the implementation of GCG, especially regarding the guidelines for the implementation of GCG. Socialization efforts need to be carried out with a special team formed for this purpose, directly under the supervision of the president director or one of the directors appointed as GCG champion in the company. Implementation, namely activities carried out in line with existing GCG guidelines, based on the roadmap that has been prepared. Implementation must be a top-down approach involving the board of commissioners and directors of the company. Implementation should also include change management efforts to oversee the process of change caused by the implementation of GCG. Internalization, namely the long-term stage in implementation. Internalization includes efforts to introduce GCG in all business processes of the company's work, and various company regulations. With this effort, it can be ensured that the implementation of GCG is not just on the surface or just a superficial compliance, but is truly reflected in all company activities.

The evaluation stage is a stage that needs to be carried out regularly from time to time to measure the effectiveness of GCG implementation by asking an independent party to conduct an implementation audit and score on existing GCG practices. There are many consulting companies that can provide such audit services, and in Indonesia there are several companies that perform scoring. Evaluation in the form of assessment, audit or scoring can also be done in a mandatory way, for example, as applied in the BUMN environment. Evaluation can help companies remap the conditions and situations as well as company achievements in implementing GCG so that they can seek necessary improvements based on the recommendations given.

GCG assessment is carried out alternately internally and externally every year. The 2020 period is the GCG assessment period with an assessment method by an independent assessor. And in accordance with the mandate of the Board of Commissioners, the independent assessor appointed to assess the implementation of PLN's GCG for the 2020 period is the Financial and Development Supervisory Agency (BPKP). Overall, the results of the GCG self-assessment for the 2020 period

reached a score of 89.559 with the predicate “Very Good”. For a more complete GCG assessment in every aspect and a comparison of scores compared to the previous year, see the graph below.

GCG Assessment Score

Aspek Penilaian Assessment Aspect	Tahun Year		
	2018	2019	2020
Komitmen terhadap penerapan tata kelola berkelanjutan Commitment to sustainable corporate governance	6,39	6,72	6,85
Pemegang Saham dan RUPS Shareholders and GMS	7,93	7,74	7,90
Dewan Komisaris/Dewan Pengawas Board of Commissioners/Supervisory Board	32,95	33,53	33,26
Direksi Board of Directors	31,89	31,41	32,02
Keterbukaan Informasi dan transparansi Information Disclosure and Transparency	8,17	8,09	8,27
Aspek lainnya Other Aspects	0,63	0,63	1,25
Total Skor Total Score	87,96	88,11	89,559

Keterangan: 0-50: Tidak Baik | 50-60: Kurang Baik | 60-75: Cukup Baik | 75-85: Baik | 85-100: Sangat Baik
Note: 0-50: Poor | 50-60: Fair | 60-75: Good | 75-85: Very Good | 85-100: Excellent

Table 1 PLN Assessment Score in the Last 3 Years

The word sustainability has become a conversation both in the discourse of globalization and in relation to company performance. Sustainability is a controversial issue and there are many definitions of what the term means. Until now there is no standard definition of sustainability, especially in the context of the company. Therefore, the measurement and interpretation of these constructs depends on the aims and interests of the researchers. This is in accordance with what Salimath & Jones III (2011) said: “There is no consensus on a unified definition of sustainability. Furthermore, the measurement and interpretation of this construct appears to be idiosyncratic to specific aims or research interest”.

The word sustainability was first introduced in the context of sustainable development which was defined by the United Nations in 1987 as follows (Salimath & Jones III: 2011): “sustainable development is a development that meets the needs of the present without compromising the ability of future generations to meet their own needs”.

There is confusion about the concept of sustainability, for linguists sustainability implies nothing more than a static word, i.e. the ability to continue unchanging, but it is often taken to imply sustainable development, and therefore the words sustainability and sustainable development in various angles. Point of view is synonymous (Aras & Crowther: 2008).

Sustainable development is seen in different ways by various stakeholders and they act depending on their knowledge, background, experience, perceptions, values and context. For example, from the point of view of economic theory, sustainable development involves a radical shift from economic growth to a stable economy. From an environmental perspective, this requires the long-term viability of resource use and limiting the human impacts that sustain the ecosystem. And from a socio-biological point of view, this approach must maintain social and cultural systems of interactions between ecosystems, and respect the integrated nature of culture (Velasquez et.al: 2011).

There are two general assumptions that develop regarding the discourse of corporate sustainability. First, sustainability is synonymous with sustainable development. Second, that a sustainable company will occur only by recognizing environmental and social issues and incorporating them into strategic planning (Aras & Crowther: 2008).

In a broader definition, sustainability relates to the impact that actions taken today are the same as those choices available in the future (Aras & Crowther: 2008). Business sustainability is a company’s total efforts to reduce the impact on the earth’s life and ecosystems (Svensson & Wagner, 2011). Sustainability is related to balanced development together with ecological problems which have important consequences for equity both intra and intergenerational (Salimath & Jones III (2011).

The definition of sustainability in the context of the company is as follows: "A sustainable company is a company that creates benefits for its stakeholders while protecting the environment and improving the lives of the people who interact with it" (Savit & Weber in CambraFierro & Benitez, 2011). Based on this definition, the company's sustainability performance is related to the company's ability to create profit, the company's ability to protect the environment and the company's ability to improve social life.

Sustainability is also considering including additional enhancements in business performance, which have become known as the "Triple Bottom Line". The word triple bottom line refers to the integration of ecological performance and social performance in a financial performance. The triple bottom line is also frequently visited as the three pillars of social, environmental and economic demand. Therefore, the combination of people, planet and profit effectively and simply explains the purpose of sustainability (Salimath & Jones III: 2011).

Corporate sustainability can be interpreted as adopting business strategies and activities that meet the needs of companies and stakeholders while protecting, maintaining and enhancing human and natural resources that will be needed in the future (Searcy, 2011).

The literature on sustainability emphasizes the need for systematic thinking to conserve natural resources, eliminate poverty, promote equality, and reduce population growth and improve quality of life (Seifferta & Loch in Velasquez et.al: 2011). Terdapat empat aspek dari sustainabilitas yang dibutuhkan untuk dikenali dan dianalisis

The literature on sustainability emphasizes the need for systematic thinking to conserve natural resources, eliminate poverty, promote equality, and reduce population growth and improve quality of life (Seifferta & Loch in Velasquez et.al: 2011). To be recognized and analyzed (Aras & Crowther, 2008), namely: Social influence, which is defined as a measure of the impact that society has on the company in terms of social contracts and stakeholder influence. Environmental impact, which is defined as the effect of the company's actions on the geophysical environment. Organizational culture, which is defined as the relationship between the company and its internal stakeholders, especially employees, and all aspects of the relationship. Finance, which is defined as an adequate return on the level of risk taken.

The definition of sustainability associated with the triple bottom line perspective is as follows: "TBL sustainability as the result of the activities of an organization, voluntary or governed by law, that demonstrates the ability of an organization to maintain viability its business operation (including financial viability as appropriate) whilst not negatively impacting any social or ecological systems". (Smith & Sharicz, 2011).

This statement implies that triple bottom line sustainability is the result of organizational activities, voluntary or regulated by law, which demonstrates the organization's ability to maintain business operations continuity (including appropriate financial viability) that does not have a negative impact on social and ecological systems. Good performance in the financial dimension results in good future performance in the environmental dimension and vice versa (Aras & Crowther, 2011). So there is no dichotomy between environmental performance and financial performance and the two concepts combine in one goal.

A more specific definition of sustainability, namely as the long-term maintenance of the system in accordance with environmental, economic and social considerations (Crane & Matten in Bonn & Fisher, 2011). From an environmental perspective, the basic principles of sustainability focus on the effective management of physical resources and require addressing issues such as exhaustion of non-renewable resources, the effects of industrialization on biodiversity and pollution production. Economic sustainability combines the long-term economic performance of the organization and the organization's approach to, and impact on, the economic framework in which the company operates. Central from a social sustainability perspective is the notion of social justice, which focuses on values such as freedom from extreme poverty, hunger and disease, the right to basic education, and the promotion of gender equality.

METHODS

The methodology used as a reference in carrying out studies on the implementation of GCG in companies is based on an assessment system in accordance with "Decree of the Secretary of the Ministry of SOEs Number: SK-16/S.MBU/2012, dated June 6, 2012 concerning Indicators/Parameters of Assessment and Evaluation of the Implementation of Good Corporate Governance. Good Corporate Governance in BUMN.

Data collection is carried out in several ways including: Document Review. Documents for the purposes of assessing the implementation of GCG were prepared by PT ABC for the 2020 period. Questionnaire. Questionnaires are used to determine the level of understanding of GCG for each group being assessed. Interview, structured interviews were conducted to obtain verification of the documents prepared by the company. In addition, interviews were also conducted to confirm the results of the assessment scores on the classification of the quality of GCG implementation obtained. Observation. Researchers conducted observations within a period of 2 months to get an overview of the implementation of GCG in the company.

Tabel 2 GCG Scoring Structure

No	Aspect	Indicator	Parameter	ScoreFactor	Conformity TestFactor
I	Commitment	6	15	7	47
II	Shareholders	6	25	9	68
III	Board of Commissioners	12	43	35	167
IV	Directors	13	52	35	201
V	Information disclosure and transparency	4	16	9	78
VI	Other Aspects	2	2	5	7
Total		43	153	100	568

0 : does not meet the criteria
 0,25 : meet some of the criteria
 0,50 : meet some of the criteria
 0,75 : meet most of the criteria
 1 : meet all criteria

Analysis of the data that has been collected is done by testing the suitability of the application in each parameter and factor of conformity test (FUK) based on the "classification as follows: The existence of SOPs/policies/rules that underlie the processes carried out by BUMN organs (Shareholders/GMS, Board of Commissioners/Supervisory Boards and Directors), including the completeness of the contents of SOPs/policies/rules of the game. Dissemination/socialization of SOPs/policies/rules of the game. Understanding of the participants carrying out the process. Implementation plan for the process according to SOP/policy/rules of the game. Implementation of processes in BUMN organs according to SOPs/policies/rules of the game. Outputs for the processes carried out by BUMN organs. The quality of the output / output produced.

Tabel 3. Application Quality Classification

No	Score	Application Quality
1	>85	Very good
2	75 < Score = 85	Good
3	60 < Score = 75	Enough
4	50 < Score = 60	Not enough
5	Score = 50	Does not meet the

RESULTS and DISCUSSION

Assessment of GCG Implementation until 2020 at electricity companies in Indonesia obtained the results of the GCG Implementation Assessment in 2020 reaching a total score of 89,559 with a classification of implementation quality: "VERY GOOD".

Based on the results of the assessment as described in table 3 above, in general it can be concluded that PT ABC already has adequate system fundamentals and infrastructure. However, these results indicate that a number of improvement measures are still needed in certain areas (Area

for Improvement- AFI). Some indicators whose fulfillment still need to be improved (Area for Improvement - AFI), are as follows:

Commitment aspect such as “Guidelines for Good Corporate Governance (GCG Code) and Code of Conduct” have not been updated, considering that these Guidelines are more than three (3) years old; The level of understanding of employees in the Company's ranks on “Guidelines for Good Corporate Governance, Code of Conduct, and Gratification Control Policy” still needs to be improved; The “Control of Graffitiation” socialization activity has not been carried out to external stakeholders.

Aspects of shareholders and GMS/capital owners such as the position of the President Director has not been definitively determined by the Shareholders/GMS; The position of the President Commissioner has not been definitively determined by the Shareholders/GMS; There is no Ratification/Approval of the 2018-2020 RJPP Draft; Approval of the RKAP has not been carried out in a timely manner. The position of the President Director has not been definitively determined by the Shareholders/GMS; The position of the President Commissioner has not been definitively determined by the Shareholders/GMS; There is no Ratification/Approval of the 2018-2020 RJPP Draft; Approval of the RKAP has not been carried out in a timely manner.

Aspects of the board of commissioners such as There has been no written review of the 2018-2020 RJPP draft submitted by the Board of Directors; There are no written opinions and suggestions on the 2018-2020 RJPP draft to be submitted to the GMS, for consideration of GMS decisions; There are no written opinions and suggestions on the 2020 Draft RKAP and submitted at the GMS for consideration of the GMS decisions; There is no supervision and provide written advice on policies and the implementation of the policies of the Board of Director; There has not been an individual performance appraisal of the Board of Directors; There are still areas of improvement in the 2019 GCG Assessment Results that have not been followed up; The 2016 Audit Committee Charter has not been updated.

Aspects of the board of directors such as: The time for submitting the RKAP to the GMS was not on time; Placement of employees at every level of the organization, there are still vacant positions; Achievement of individual Directors' Performance targets, not yet made; d) The Company's performance still needs to be improved in order to be better than the previous years; Internal Audit Charter 2016, not yet updated; Implementation of the GMS (RJPP 2018-2022 and RKAP 2020), not on time

Aspects of disclosure of information and transparency such as: The company has not participated and received an award in the field of CSR, namely the Sustainability Reporting Rating or the like. Finally other aspect such is the company has not become a benchmark and has not had the best performance in the BUMN business sector or in its industry.

CONCLUSION

It was found that the aspect of commitment to the implementation of sustainable governance was increasing every year; the aspect of shareholder assessment and the GMS decreases; Board of commissioners/board of supervisors increased; The assessment aspect of the Board of Directors decreases every year, and the value of other aspects increases every year. From the total GCG Assessment score of 89.559 in 2020, it is concluded that the implementation of GCG is in the very good category and has a positive effect on the company's sustainability.

From the results of the study of the results of the 2020 GCG Implementation Assessment Results in electricity companies in Indonesia that have been discussed, it can be concluded that the overall implementation of GCG has been going very well. However, there are still several areas for improvement, which are grouped into four areas, namely: Governance, Risk Management, Compliance (Compliance), Strategy (Strategy).

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