

Good Corporate Governance A Comparative Study of Two Municipally Owned Corporations (Moc)

Fifi Swandari^{1*} Abdul Hadi¹

¹ *Master of Management Program Lambung Mangkurat University, Indonesia*

^{*} *Corresponding author. Email: fswandari12@ulm.ac.id*

ABSTRACT

The purpose of this study is to compare the implementation of GCG on Two Owned Corporation (MOC), namely PDAM Intan Banjar and PDAM "Y". This research analyzes various things. First, how is the implementation of GCG in the two MOCs. Second, how is political intervention experienced by the two MOCs. Third, how do two companies overcome the problem of political intervention experienced. This type of research is qualitative research, categorized as case study research with samples of Intan Banjar PDAM and PDAM "Y". The subject of this research is the Intan Banjar is the President Director and the Chair of the SPI. The subject in PDAM "Y" is the General Director and Chair of the SPI. The method of collecting data is by depth interview. The analytical tool is descriptive-analytical. Adequately, both of them are checked by GCG by the BPKP. The results at PDAM Intan Banjar are better. The two companies experienced political intervention, but the PDAM of North Sumatra could first handle political intervention. The PDAM "Y" can only handle this problem after something has "happened".

Keywords: *Good Corporate Governance, PDAM, Municipal Owned Corporations (MOC), Political Intervention.*

1. INTRODUCTION

The performance of companies whose shares are mostly owned by local governments or commonly referred to as Municipally Owned Companies (MOC) is usually not encouraging. This is no exception in South Kalimantan, most of the MOC has a not-so-satisfying performance seen from several indicators such as customer satisfaction, excellent service and *good corporate governance* (GCG).

GCG in MOC relatively lagging implementation, good GCG implementation requires infrastructure and *structure*. GCG infrastructure includes nomination and remuneration committees, risk management committees, GCG committees and Audit committees. GCG *soft structures* include GCG *code, board manual* for the Board of Commissioners/Supervisors and directors, *code of conduct*, the charter to support GCG and SOP.

There are two regulations related to GCG implementation, for BUMN, BUMN rules that can be used is BUMN State Minister Regulation PER 01/MBU/2011 concerning the implementation of Good

Corporate Governance [1]. The legal basis for GCG in MOC is included in Law No. 23 of 2014 concerning Regional Government [2]. This law contains the application of GCG in general on MOC.

The challenges faced by MOC in various places are relatively large. These challenges include: (a) MOC usually has many goals that contain conflict with each other, (b) MOC is strongly fulfilled by the ruling political forces, and (c) often has ambiguous direction and vision [3]. The same thing is suspected to happen in MOC in South Kalimantan, as happened in the PDAM. PDAM is a water company that supplies water to the regional citizen.

PDAM or MOC must be managed professionally. Summarized from Diah, MOC stages development consist of 4 steps: efficiency, service area, filling PAD and independent [4].

The PDAM to be investigated or compared to its GCG is PDAM Intan Banjar and PDAM "Y". Both are also relatively large and relatively good PDAMs. Both were selected because they can represent the GCG appliance of companies owned by local governments.

The objective of this research is to produce improvement strategies of GCG in MOCs. Particular objectives are (a) describe GCG implementation in the PDAM, (b) analyze the effectiveness of GCG implementation, (c) describe the political intervention in both PDAMs and (d) describe the things that have been done to overcome these obstacles.

Regional companies have the task of managing regional property, providing services and building systems responsibly. Its performance affects the welfare of society. That is why high-quality *corporate governance* is very much needed at the PDAM/MOC, exceeding the needs of the private sector.

Good Corporate Governance

Asymmetry theory said that the parties related to the company did not have the same information about the prospects and risks of the company. Certain parties have better information than others. Managers usually have better information than outside parties (such as investors), it can be said that there is information asymmetry between managers and investors. Investors who feel they have less information will interpret manager behavior[5].

According to Pearce and Robinson[6], when there is a separation between the owner (*principal*) and the manager (*agent*) in a company, then there is a possibility that the wishes of the owner are ignored. This fact and the awareness that agents are expensive set the foundation for a group of complicated but useful ideas known as agency theory (*agency theory*). When an owner (or manager) delegates decision-making authority to another party, there is an agency relationship between the two parties. Agency relations, such as the relationship between shareholders and managers, will be effective as long as managers take investment decisions that are consistent with the interests of shareholders. The manager's interests may differ from those of the owner, so the decisions taken by the manager is likely to reflect the manager's preferences compared to the owner.

Good Corporate Governance and Purpose

The definition of *corporate governance* according to *Turnbull Report* in the United Kingdom (April 1999) cited by Tsugouki Fujinuma is the company's internal control system that has the main goal of managing risk that is important to meet its business objectives through safeguarding company assets and increasing long-term investment value [7].

The World Bank defines *good corporate governance* (GCG) as a collection of laws, regulations and rules that must be fulfilled, which can encourage the performance of company resources to function efficiently in order to produce sustainable long-term economic value

for shareholders and the surrounding community as a whole[7].

The Decree of the BUMN Minister No.117/M-MBU/2002 concerning the implementation of GCG in BUMN states that *corporate governance* is a process and structure used by BUMN organs to increase business success and corporate accountability to realize long - term shareholder value with regard to stakeholders (*stakeholders*) others, based on laws and ethical values (6). Based on some of the meanings above, *Good Corporate Governance* can be interpreted as a set of rules that govern and control a company to create value-added for stakeholders.

Basic Principles of GCG

Effendi [7] stated that the *Organization for Economic Co-operation and Development* (OECD) had developed the *OECD Principle of Corporate Governance* in April 1988. The principles of *corporate governance* developed by the OECD include the following 5 (five): (a) *the rights of shareholder*, (b) *the equitable treatment of shareholder*, (c) *the role of stakeholders*, (d) *disclosure and transparency*, (e) *the responsibilities of the boards*. GCG Principles in accordance with Article 3 SOE Minister Decree No.117 / M-MBU /2002 July 31, 2002, concerning GCG Implementation in BUMN [8] as follows: *transparency, disclosure, Independent, account ability, responsibility and fairness*. The governance structure has the function to distribute roles and functions of the organs within the companies, and to run as well as control the companies[9].

2. METHODS

This research is categorized as qualitative research, including in the case study. This study examined two MOC, namely the Regional Water Company (PDAM) Intan Banjar and PDAM 'Y'. The population in this study were all MOCs in South Kalimantan. The sample chosen is two companies, namely PDAM Intan Banjar and PDAM 'Y'. The data used are secondary data and primary data. Secondary data is obtained from existing records in the company about the infrastructure and the *structure* of GCG in the company.

The indicator used to measure GCG is part of the GCG indicators for MOC, with more focus on the stated research objectives. Primary data is obtained from the process of depth interview.

The research subject at PDAM Intan Banjar is President Director of PDAM Intan Banjar, Chair of SPI Intan Banjar, Head of Finance at PDAM Intan Banjar. The research subjects at the PDAM "Y" are the General Director, Chair of SPI, and Chair of the GCG Committee. The research for PDAM Intan Banjar is held on Tuesday, January 8, 2019. While, the research in PDAM "Y" is held on Tuesday, January 22, 2019. The

analytical tool used is the one that was developed in this research is descriptive-analytical.

3. FINDING AND DISCUSSION

PDAM Intan Banjar is a water supply company owned by the local government. The PDAM Intan Banjar serves two regions, namely Banjar and Banjarbaru districts. Intan Banjar PDAM is included in the category of outstanding PDAMs. The indicators are: having good financial performance, having several achievements, ranging from achievements related to Information Technology and achievements in terms of GCG implementation. PDAM Intan Banjar together with PDAM Badung Regency (Bali) is the speakers in implementing GCG in several other PDAMs.

PDAM "Y" is a relatively large PDAM. This PDAM has made many breakthroughs in the development of the company, namely the development of Human Resources (HR), Information Technology, ease of payment of accounts and one day service for new connections.

PDAM "Y" is a relatively high performing PDAM. The leaders at that time were often asked to be speakers at PDA M- PDAM throughout Indonesia. This PDAM has problems related to litigation or legal threats by other parties. This is very frivolous news for PDAM.

GCG and Political Intervention in Two Municipally Owned Companies

The GCG indicator used in this study is a GCG indicator for Municipally-Owned Companies (MOC). The indicator consists of commitments, policies, participants in GCG and transparency.

Both companies share and implement GCG. Some of the GCG indicators are already owned and implemented. Both companies have also been tested for GCG by the BPKP. PDAM Intan Banjar already has a GCG report, while PDAM "Y" has not been specifically documented. PDAM "Y" in the implementation of its GCG was also accompanied by the MOC Development Team.

Political intervention that usually occurs in a regional company is usually in the form of a request for money or funds, entrust someone to become an employee in the company, intervention in decision-making, project-related interventions and so on. The most frequent interventions are usually related to funding requests, entrusted to become employees or related to projects.

PDAM Intan Banjar, in this case, represented by the President Director, stated that it is very understandable that the owners usually make the PDAM the object of intervention. The usual intervention is usually related to funding requests and entrusts someone to work in the PDAM.

Before being asked to lead the PDAM Intan Banjar, the President Director has conveyed to the Regent

(bupati, as a representative of the owner) that the President Director wants to lead the PDAM professionally without the intervention of the Regent and his staff. This is not an easy matter, considering that intervention activities from owners are almost prevalent in regional companies, in this case, the PDAM.

A Director of a PDAM in an area has been made very troubled when holding employee selection. Many people contacted him to entrust his children and siblings. The methods are various, starting from calling, going to the office, coming to the house and so on. Receiving an employee without selection is not a wise choice, finally what can be done is to avoid and submit the selection process to the team in a professional manner.

The case in PDAM Intan Banjar means that the Manager has preemptively explained his position to the Regent not to receive intervention from the start. This is termed socialization, socialization of various things desired by managers to owners. This shows that the Manager has a good bargaining position in front of the owner.

The second problem with owner intervention is intervention related to funds. This means that the common problem is the request for funds from the owner (representation of the owner). The funds in question are funds outside the budget. PDAM Intan Banjar anticipated this by creating an SOP (Standard Operating Procedure) in finance. All expenditures planned and allowed to be issued are those that have been planned. The steps of expenditure of funds have been written in the SOP and SOP adhered ranging from the head to the bottom level employees.

The Head of Finance also has a clear job description of his duties. This includes explicitly rejecting expenditures that were previously not planned or that violate procedures. The President Director always discusses every essential expenditure with the Head of Finance.

Another important thing is structuring the Information Technology (IT) field. All relatively important things are informed by adequate IT devices. An example is a financial problem, and interested parties can monitor how much payment has been made by customers in real-time. Therefore, problems that may occur can be known more quickly and can be handled appropriately.

PDAM "Y"

Political intervention, cannot be denied also experienced by PDAM "Y". Interventions that occur are not explicitly explained by the General Director, but are admitted to exist. The intervention suddenly stopped after a "case" occurred. The "case" has been jointly understood by researchers and the community in South Kalimantan, and the case is related to litigation.

The "case" that occurred made all the parties involved shocked. This is very surprising. This has a positive impact on the other hand, the practice of intervention in the PDAM "Y" suddenly disappears.

PDAM "Y" has also tried to be free from political intervention, for example, when recruiting. PDAM tries to be free from intervention by using employee recruitment agencies from outside South Kalimantan.

The way the PDAM to avoid interventions related to financial problems is by following SOPs that have been made for financial problems. If there is a request for unplanned funds, then it cannot be issued. All follow the RKKL that has been made.

There are some interesting findings during the research process. First, interventions carried out by NGOs. NGOs did not necessarily reject the intervention, but it was embraced by the PDAM "Y". The NGO was then asked to work with PDAM "Y", and its job was to disseminate to the community in an area about PDAM programs.

Second, PDAM "Y" is relatively routine in conducting customer satisfaction surveys. The survey aims to find out how well the company meets the needs and desires of its customers.

4. CONCLUSION

The two companies, namely PDAM Intan Banjar and PDAM "Y" are both implementing GCG. Some of the GCG indicators are already owned and implemented. Both companies have also been tested for GCG by the BPKP. PDAM Intan Banjar already has a GCG report, while PDAM "Y" has not been specifically documented. The BUMD Development Team also accompanied PDAM "Y" in the implementation of its GCG.

Political interventions that usually occur in both companies are requests for funds, entrusting people to become employees or interventions in relation to the project.

The ways to eliminate the intervention by socialization to the regent, making SOP (Standard Operating Procedure) in finance. The SOP is complied with starting from the leadership to the lowest level employees. The Head of Finance also has a clear job description of his duties. This includes explicitly rejecting expenditures that were previously not planned or that violate procedures. PDAM "Y" by complying with a predetermined financial plan. There must be no expenses other than those planned.

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