SSRG International Journal of Economics and Management Studies
ISSN: 2393 – 9125 / http://doi.org/10.14445/23939125/IJEMS-V7I11P105

Volume 7 Issue 11, 34-37, November 2020

Original Article

Implementation of Good Corporate Governance in The Management of Rural Banks in the District Sidoarjo

Lusy [1] & Thyophoida W.S. Panjaitan[2]

[1,2] *Darma Cendika Chatolic University, Surabaya*

Received Date: 05 October 2020
Revised Date: 10 November 2020
Accepted Date: 14 November 2020

***Abstract** - The role of Rural Banks is very large in developing Micro, Small, and Medium Enterprises (MSMEs) in Indonesia. MSMEs are large absorbers of labor and play an important role in economic growth in Indonesia. Government through Financial Services Authority (OJK) Regulation No. 4/POJK.03/2015 obliges Rural Banks to implement Governance. Corporate Governance is an internal control system that aims to manage its significant risks to meet its long-term business objectives. This study aims to see how the implementation of Good Corporate Governance (GCG) in the Management of Rural Banks in Sidoarjo Regency, using a qualitative approach. This research uses observation methods in the form of in-depth interviews, participant observation, and a list of questions that informants need to fill in. The results showed that the observed People's Credit Banks had implemented Governance following the Financial Services Authority (OJK) Regulation, seen from 5 pillars: Transparency, Accountability, Responsibility, Independence, and Fairness. The applied GCG also includes planning, management, and operational control of Rural Banks. Fulfillment of the required reports does not prevent fraud from occurring. With the implementation of GCG for Rural Banks, there is still a need for synergy between the Compliance Department and Internal Audit. As for the advice for the OJK as a policymaker, it is better to simplify the requested reports without reducing the risk of fraud so that Rural Banks can carry out their company operations optimally while still implementing good Governance, with the hope that Rural Banks can maintain Going Concern.*

***Keywords** - Rural Banks, MSME, Good Corporate Governance*

I. INTRODUCTION

On March 31, 2015, Good Corporate Governance (OJK) issued regulation no. 4/POJK.03/2015 concerning Implementation of Governance for Rural Banks. Governance needs to be implemented because of the increasingly complex risks and challenges faced by Rural Banks, both from internal and external parties. Besides, the implementation of Governance through independent parties can improve the balance of the supervisory function optimally. Committee members as independent commissioners and independent parties must be free from conflict of interest (Effendi, 2016).

This study was conducted because of differences in the results of several researchers, such as Kangmartono et al. (2018), that corporate Governance affects the financial performance of rural banks. This research is supported by Khan and Ali (2017), Halim et al. (2017), Mahmood and Orazalin (2017), Ali et al. (2018), Lassoued (2018), Al-Malkawi and Pillai (2018), Rosa and Bernini (2018), Jarbou, et al. (2018), Almutairi and Quttainah (2017), Felicio, et al. (2018), John and Ogechukwu (2018), Paniagua, et al. (2018). In contrast, research from Bashir et al. (2018), Chou (2018), and Ghofar and Noviandry (2018) show that corporate Governance does not affect company performance. The difference with this research is using a qualitative approach through observation and in-depth interviews for the implementation of Corporate Governance in the Rural Bank Sidoarjo Regency. The urgency of the research, namely companies that implement good corporate Governance, will minimize the risk of company loss, both in terms of bad credit, and prevent fraud that may occur due to the absence of separation of duties and responsibilities in a company.

II. LITERATURE REVIEW

Regulation number 4/POJK.03/2015 concerning Implementation of Governance for Rural Banks requires Rural Banks to make annual reports on Corporate Governance to the Financial Services Authority (OJK). The implementation of government regulations at all activities and levels of the organization is an obligation that must be carried out by Rural Banks.

A. Rural Banks

Rural Banks is a financial institution that carries out business activities to collect funds from people who have excess funds, then channel them to other people who need funds or to entrepreneurs who are in need of capital to expand their business. People's Credit Banks in Indonesia, most of which are companions for MSME entrepreneurs, especially in management, good marketing strategies, so that the MSME*s* business is getting bigger and more advanced.

B. Micro, Small, Medium Enterprises (MSMEs)

According to data in 2017, MSMEs contributed to GDP by 60% and absorbed a workforce of 97.02 percent in the same year. As for the definition of MSMEs according to Law no. 20 Article 1 of 2008, namely:

- Businesses that have a net worth of not more than Rp. 50,000,000,- (Fifty million Rupiah), excluding land and buildings for business premises; or that has annual sales of at most Rp. 300,000,000- (Three hundred million Rupiah) are referred to as Micro-Entrepreneurs.
- Businesses that have a net worth of more than Rp. 50,000,000- (Fifty million Rupiah) up to a maximum of Rp. 500,000,000,- (Five hundred million Rupiah) excluding land and buildings for business, or have annual sales of more than Rp. 300,000,000,- (Three hundred million Rupiah) up to a maximum of Rp. 2,500,000,000- (Two billion five hundred million Rupiah) are referred to as Small Entrepreneurs.
- Businesses that have a net worth of more than Rp. 500,000,000,- (Five hundred million Rupiah) up to a maximum of Rp. 10,000,000,000,- (Ten Billion Rupiah) excluding land and buildings for business, or have annual sales of more than Rp. 2,500,000,000,- (Two Billion Five hundred million Rupiah) up to a maximum of Rp. 50,000,000,000,- (Fifty Billion Rupiah) is referred to as a Medium Entrepreneur.

C. Corporate Governance

The internal control system that is implemented to manage significant risks to secure company assets and increase long-term shareholder investment value is known as Corporate Governance. The notion of Governance is related to transparency, accountability, responsibility, independence, and fairness.

To be free from conflict of interest, Rural Banks needs an independent commissioner and other independent parties, in this case, the Compliance Division, which acts as internal audit and risk management and compliance (for KU1 Rural Banks). An independent commissioner is a member of the board of commissioners who has no financial, management, share ownership, and family relationship with other board of commissioners, directors, and controlling shareholder or other relationship that may affect their ability to act independently. Independent parties are parties outside the Rural Banks that are not related to finance, management, share ownership, and family relationships with other board of commissioners, directors, and controlling shareholders or other relationships that may affect their ability to act independently. According to OJK Regulation Number 4/POJK.03/2015.

III. METHOD

This study's research method uses a qualitative approach, namely research based on phenomenology and humanism, and other philosophies such as empiricism, idealism, and humanism (Bungin, 2007).

The object of this research is 5 Rural Banks in Sidoarjo Regency, East Java. The informants in this study were the management and employees of the People's Credit Bank. Methods of data collection with in-depth and gradual interviews, participatory observation, and a questionnaire guide in conducting interviews. The data analysis techniques used were observation and interviews with informants. The informants were the Rural Banks, including the Board of Directors, the Board of Commissioners, Independent Commissioners, Independent Parties, and all those related to the management of Rural Banks in Sidoarjo Regency.

IV. RESEARCH RESULT

Based on interviews through a compiled questionnaire, it is known that all of the Rural Banks studied belong to KU1. Rural Banks KU1 does not need to have a Remuneration and Nomination Committee, Audit Committee, Risk Monitoring Committee, but is replaced by the Executive Officer (EO) of Internal Audit and EO of Risk Management and Compliance. All forms of accountability reports, especially those prepared by the Board of Commissioners, are conducted every semester and are reported a maximum of one month after the end of the semester. The People's Credit Bank also has work guidelines and procedures for all parts, including work ethics, working hours, as a form of transparency. Directors who serve must meet the minimum criteria of passing D2 and have a certificate of the certificate, pass Fit and Property.

OJK party conducts audits related to Governance at least once a year. The measurement indicators related to Good Corporate Governance are distributed to Rural Banks, namely:

1. Transparency, relating to the disclosure of both financial information and the results of company operations; company objectives, disclosure of members of the board of commissioners and the income earned; Disclosure of risk factors will come concerning credit risk management, operational risk

management, and compliance risk management; Corporate governance structure and policies; There is a standard audit report; as well as annual audits conducted by independent auditors.

2. Accountability, relating to individual accountability, both superiors, subordinates, authorized parties, and assignments from the authorities; Team accountability, namely joint accountability in working groups related to the performance achieved; and corporate accountability, namely corporate accountability in performing its role as a business entity.
3. Responsibility can be seen from compliance with laws and regulations; the existence of partnerships with all stakeholders following statutory limits and sound business ethics;
4. Independent, which means being independent in performing tasks and making decisions, which are carried out independently; in carrying out tasks according to the provisions of the applicable laws and GCG principles; and there are no parties allowed to interfere in company affairs outside the company's organs.
5. Fairness means: the process and procedure of the GMS must receive equal treatment, for all shareholders, according to the composition of shareholders; members of the board of commissioners and directors, as well as managers, must disclose any interest owed to transactions or rights that affect the company, to prevent conflicts of interest (Effendi, 2016: 11-15).

This research also shows that the Rural Banks has carried out a planning function in the form of setting company operational targets and employee performance targets. The management function is related to work guidelines and rules for all divisions, including work ethics, working hours, and meeting regulations. The supervisory function is in the form of a clear separation of duties and responsibilities, for example, between the Board of Directors and the Board of Commissioners, so that there is no Conflict of Interest. Concerning the control function, Rural Banks has carried out routine internal audits and provided recommendations on any audit findings and improvements in the future to reduce the risk of fraud. The role of the audit committee in evaluating the planning and implementation of audits and monitoring the follow-up to audit results has gone well, according to research from Supeno and Islami (2019).

This research is in line with Arif's (2020) research on PT. Brantas Abipraya shows that the company has carried out evaluation and assessment, both internally and externally, and has implemented good corporate Governance. Likewise, research from Harjanti (2019) shows that Rural Banks ABC has implemented GCG following OJK regulations, even though several things must be fulfilled in its organizational structure.

V. CONCLUSION

The existence of good Governance is beneficial for Rural Banks, but it is more of an administrative nature. According to Bank Perkreditan Rakyat, reports that are required by the OJK make them not focus on carrying out company operations, especially during a pandemic, so that their income is not on target. The implementation of Governance does not necessarily prevent fraud because there is a need for synergy with internal audit. If the audit ability is lacking so that it cannot provide recommendations to the Compliance Department, even if the internal control is good, fraud can still occur. Conversely, if the internal audit ability is good, but the Compliance department does not carry out audit recommendations, fraud could also occur.

Suggestions for policymakers are that reports relating to Governance should be simplified by taking into account managerial risks so that BPR can implement good Governance without having to reduce time to run operations so that the company's survival is maintained.

ACKNOWLEDGMENT

Researchers are grateful to the Ministry of Education and Culture and LL Dikti Region VII, who have allowed us to receive the Beginner Lecturer Research Grant. Hopefully, this research will be useful for other researchers to enrich writing in Indonesia.

REFERENCES

[1] A. Ali, F. Qiang, and S. Ashraf. 2018. "Regional Dynamics Of Ownership Structure And Its Impact On Firm Performance And Firm Valuation: A Case Of Chinese Listed Companies". Review of International Business and Strategy. 28(1):120-147.

[2] A. Ghofar and F. Noviandry. 2018. "Foreign Ownership, Corporate Governance Mechanism, and Technical Efficiency of Indonesia Banking Industry". Jurnal Keuangan dan Perbankan (JKP). 22(4):734-746.

[3] A.E. Harjanti. 2019. "Evaluasi Implementasi Good Corporate Governance Pada Bank Perkreditan Rakyat". Stability Journal of Management & Business. 2(2): 47-60.

[4] A.R. Almutairi and M.A. Quttainah. 2017. "Corporate Governance: evidence from Islamic banks". Social Responsibility Journal, Emerald. 2017:1-44.

[5] A.T. John and O.L. Ogechukwu. 2018. "Corporate Governance and Financial Distress in the Banking Industry: Nigerian Experience". Journal of Economics and Behavioral Studies. 10(1): 182-193.

[6] B. Bungin. 2007. Penelitian Kualitatif Konumikasi, Ekonomi, Kebijakan Publik, dan Ilmu Sosial Lainnya. Edisi Kedua. Kencana Prenada Media Group. Jakarta.

[7] B.G.H. Kangmartono, M.W. Yusniar and S. Jikrillah. 2018. Pengaruh Mekanisme Corporate Governance Terhadap Kinerja Keuangan Bank Perkreditan Rakyat Di Indonesia. Jurnal Wawasan Manajemen. 6(2):101-113.

[8] D. Fatihudin, Jusni, and M. Mochklas. 2018. "How Measuring Financial Performance". International Journal of Civil Engineering and Technology (IJCIET), 9(6): 553–557

[9] E.H. Halim, G. Mustika, R.N. Sari, R. Anugerah, and Z. Mohd-Sanusi. 2017. "Corporate Governance Practise and Financial Performance: The Mediating Effect of Risk Management Committee at Manufacturing Firms". Journal of International Studies. 10(4): 272-289.

[10] F.L. Rosa and F. Bernini. 2018. "Corporate Governance and

Performance of Italian Gambling SME's during the recession". International Journal of Contemporary Hospitality Management. 02(2017):1-36.

[11] H.N. Al-Malkawi and R. Pillai. 2018. "Analyzing Financial Performance by Integrating Conventional Governance Mechanism into the GCC Islamic Banking Framework". Managerial Finance. 44(5):604-623.

[12] J. Paniagua, R. Rivelles, and J. Sapena. 2018. "Corporate Governance And Financial Performance: The Role Of Ownership 52(4):183-197.

[15] Rieke Pernamasari, Sri Purwaningsih, Juita Tanjung, Dewi Puji Rahayu, "Good Corporate Governance and Prediction of Financial Distress to Stock Prices: Atman Z Score Approach" SSRG International Journal of Economics and Management Studies 6.11 (2019): 56-62.

[16] Lassoued. 2018. "Corporate Governance and financial stability in Islamic banking". Managerial Finance. 44(5): 524-539.

[17] M. Mahmood and N. Orazalin. 2017. "Green Governance and Sustainability Reporting in Kazakhstan's oil, gas, and mining sector: Evidence from a former USSR emerging economy." Journal of Cleaner Production. 17(31348-3): 1-22.

[18] M. Oktaviani, M. Mochklas, and E.M. Fahmi. 2019. "Pecking Order Theory as a Strengthening Capital Structure". Proceedings of the 1st International Conference on Business, Law, And Pedagogy, ICBLP 2019, 13-15 February 2019, Sidoarjo, Indonesia

[19] M.A. Effendi. 2017. "The Power of Good Corporate Governance Teori dan Implementasi". Salemba Empat.Jakarta.

[20] M.J. Sembiring, D. Fatihudin, M. Mochklas, and I. Holisin. 2020. "Banking Employee Performance During Pandemic Covid-19: Remuneration And Motivation". Journal of Xi'an University of Architecture & Technology, 12(7): 64-71.

[21] Peraturan Otoritas Jasa Keuangan No. 4/POJK.03/2015. Penerapan Tata Kelola Bagi Bank Perkreditan Rakyat (BPR).

[22] S. Arif. 2020. Implementasi Etika Bisnis Dan Good Corporate And Board Structure". Journal of Business Research, Elsevier. 89:229-234.

[13] J.A. Felicio, R. Rodrigues, H. Grove, and A. Greiner. 2018. "The Influence Of Corporate Governance On Bank Risk During A Financial Crisis". Economic Research-Ekonomska Istraživanja. 31(1):1078-1090.

[14] L. Jarbou, J. Abu-Serdaneh, and J.M. Atmeh. 2018. "Ownership Structure and Conservatism's Impact on Jordanian Bank's Financial Performance". The Journal of Developing Areas. Governance Pada PT. Brantas Abipraya (Persero). Jurnal Ekonomi dan Manajemen Sistem Informasi (JEMSI). 1(5): 502-512.

[23] S.N. Khan and E.I.E. Ali. 2017. "How Intellectual Capital Moderates the Relationship between Corporate Governance and Firm Performance in Pakistan's Capital Market: A Conceptual Review and Proposal". International Journal of Economic Perspectives. 11(2):359-371.

[24] T. Chou, 2018. "Executive's Compensation, Good Corporate Governance, Ownership Structure, And Firm Performance: A Study Of Listed Banks In Indonesia". Journal of Business and Retail Managemen Research. 12(2):79-91.

[25] T. Dewayanto. 2010. Pengaruh Mekanisme Good Corporate Governance terhadap Kinerja Perbankan Nasional (Studi pada Perusahaan Perbankan yang Terdaftar di Bursa Efek Indonesia Periode 2006-2008). Fokus Ekonomi. Volume5. No.2. Desember 2010: 104-123.

[26] U. Bashir, U. Fatima, S. Suhail, F. Rasul, and R. Mehboob. 2018. "Internal Corporate Governance and Financial Performance Nexus; a Case of Banks of Pakistan". Journal of Finance and Accounting. 6(1):11-17.

[27] Undang-Undang Republik Indonesia Nomor 20 Tahun 2008. Usaha Mikro, Kecil, Dan Menengah.

[28] W. Supeno and V. Islami. 2019. "Evaluasi Penerapan Tata Kelola Bank Pada PT. BPR Eka Bumi Artha". Moneter. 6(2): 157-166.