The evaluation of corporate governance practise in Indonesia: a case study

Agus Setiawan

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THE EVALUATION OF CORPORATE GOVERNANCE PRACTISE IN INDONESIA: A CASE STUDY

A thesis submitted in fulfillment of the requirements for the award of the degree

DOCTOR OF PHILOSOPHY

from

UNIVERSITY OF WOLLONGONG

by

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SCHOOL OF ACCOUNTING AND FINANCE
2007
CERTIFICATION

I, Agus Setiawan, declare that this thesis, submitted in fulfillment of the requirements for the award of Doctor of Philosophy, in the School of Accounting and Finance, University of Wollongong, is wholly my own work unless otherwise referenced or acknowledged. The document has not been submitted for qualifications at any other academic institution.

Agus Setiawan

28 August 2006
This thesis is dedicated

to my wife, Nur Rahmah Tri Utami

and

to my parents, Mr. and Mrs. Winarna Surya Adisubrata
ABSTRACT

There is a limited published research on corporate governance practise in Asian countries, during and after the Asian economic crisis of 1997, especially the practise within the Indonesian context. Most of Indonesian companies suffered a loss during the crisis, and only a limited number of companies survived and booked a profit.

This study is concerned with the corporate governance practice in a baby milk formula producer and a public listed company, PT Sari Husada Tbk. The company was acquired by Royal Numico N.V. Holland in 1997 and was one of those Indonesian companies which survived and outperformed the market average during the crisis. This research examined the elements of corporate governance system at Sari Husada and the role of each level of the firm, so that it could perform in the best interest of the company, using an ethnographic qualitative approach. Twenty one respondents from inside and outside the company have been interviewed, in order to find out evidences about what happened, how it happened and why it happened. Three cornerstones, corporate governance, corporate culture and strategic management, were used in analysing the data.

The study found that the corporate governance practise in Sari Husada was partly adopted from the literature with some adjustments which included local culture and national interests. The company survived the crisis of 1997 because of the
adoption of a multinational company’s working system, the cultural change toward the attitude of productivity and efficiency, the products with an affordable price and quality nutrient, and the long and enduring effort of its managers and staff. Above all, Sari Husada has been able to transform into a new modern company which produces various related food products for babies.
ACKNOWLEDGEMENT

I am grateful to the Almighty Allah who gave me the opportunity to submit this thesis. I would like to express my sincere gratitude to Associate Professor Robert Williams who guided and supervised me during this study period. His encouragement, constructive discussion and personal support have greatly contributed to completing this thesis. I also wish to thank Prof. Michael Gaffikin for his valuable help during stages of the study.

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Last, but not least, for her patience and support, my sincere appreciation and thanks to my wife, Nur Rahmah Tri Utami. She suffered from lack of attention and normal life during the final stage of the study. For her patience and sacrifice, I pray may Allah gives her better rewards.
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<th>Full Form</th>
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<tbody>
<tr>
<td>ADB</td>
<td>Asian Development Bank</td>
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<tr>
<td>AGM</td>
<td>Annual General Meeting</td>
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<tr>
<td>Bapepam</td>
<td>Badan Pengawas Pasar Modal or Capital Market Supervisory Agency; previously Badan Penyelenggara Pasar Modal or Capital Market Executive Agency</td>
</tr>
<tr>
<td>BUMN</td>
<td>Badan Usaha Milik Negara or State Owned Enterprise</td>
</tr>
<tr>
<td>CEO</td>
<td>Chief Executive Officer</td>
</tr>
<tr>
<td>CFO</td>
<td>Chief Financial Officer</td>
</tr>
<tr>
<td>CG</td>
<td>Corporate Governance</td>
</tr>
<tr>
<td>BOC</td>
<td>Board of Commissioners</td>
</tr>
<tr>
<td>BOD</td>
<td>Board of Directors</td>
</tr>
<tr>
<td>BPS</td>
<td>Biro Pusat Statistik or National Bureau of Statistic</td>
</tr>
<tr>
<td>DPK</td>
<td>Dana Purna Karya; a company owned by Sari Husada’s pension fund</td>
</tr>
<tr>
<td>DPR</td>
<td>Dewan Perwakilan Rakyat or Indonesian House of Representatives</td>
</tr>
<tr>
<td>EKUIN</td>
<td>Ekonomi, Keuangan dan Industri or Economy, Finance and Industry</td>
</tr>
<tr>
<td>EMI</td>
<td>Enterprise Management Incentive</td>
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<tr>
<td>EPS</td>
<td>Earning per Share</td>
</tr>
<tr>
<td>ERP</td>
<td>Enterprise Resource Planning</td>
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<td>ESOP</td>
<td>Employee Stock Option Program</td>
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<tr>
<td>EVA</td>
<td>Economic Value Added</td>
</tr>
<tr>
<td>EXACT</td>
<td>An accounting system for monitoring program at Sari Husada</td>
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<tr>
<td>FA</td>
<td>Finance and Accounting department</td>
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<tr>
<td>GAAP</td>
<td>Generally Accepted Accounting Principles</td>
</tr>
<tr>
<td>GAAS</td>
<td>Generally Accepted Auditing Standard</td>
</tr>
<tr>
<td>GATT</td>
<td>General Agreement on Tariffs and Trade</td>
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<tr>
<td>GCG</td>
<td>Good Corporate Governance</td>
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<tr>
<td>GMP</td>
<td>Good Manufacturing Practise</td>
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<tr>
<td>Acronym</td>
<td>Full Form</td>
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<td>---------</td>
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<tr>
<td>GMS</td>
<td>General Meeting of Shareholders</td>
</tr>
<tr>
<td>HACCP</td>
<td>Hazard Analysis and Critical Control Point</td>
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<td>HQ</td>
<td>Headquarters</td>
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<tr>
<td>HRD</td>
<td>Human Resource Development</td>
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<tr>
<td>IAI</td>
<td>Ikatan Akuntan Indonesia or Indonesian Institute of Accountants</td>
</tr>
<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
</tr>
<tr>
<td>Infes</td>
<td>Institute for Economic Studies</td>
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<tr>
<td>IPO</td>
<td>Initial Public Offering</td>
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<tr>
<td>Jamsostek</td>
<td>Jaminan Sosial Tenaga Kerja or Social Insurance for Labour</td>
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<td>JSX</td>
<td>Jakarta Stock Exchange</td>
</tr>
<tr>
<td>KPI</td>
<td>Key Performance Indicator</td>
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<tr>
<td>NCCG</td>
<td>National Committee on Corporate Governance</td>
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<tr>
<td>MT</td>
<td>Management Trainee</td>
</tr>
<tr>
<td>MUI</td>
<td>Majelis Ulama Indonesia or Indonesian Council of Ulama</td>
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<td>NIS</td>
<td>Nutricia Indonesia Sejahtera</td>
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<tr>
<td>Numico</td>
<td>A new firm established after the Nuticia - Milupa - Cow and Gate merger; the parent company of Sari Husada</td>
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<tr>
<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
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<tr>
<td>PERC</td>
<td>Political and Economic Risk Consultancy</td>
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<tr>
<td>Perkasa</td>
<td>Persatuan Karyawan Sari Husada or Sari Husada Labour Union</td>
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<tr>
<td>PMA</td>
<td>Penanaman Modal Asing or Foreign Investment</td>
</tr>
<tr>
<td>PMDN</td>
<td>Penanaman Modal Dalam Negeri or Domestic Investment</td>
</tr>
<tr>
<td>Propenas</td>
<td>Program Pembangunan Nasional or Five Year Development Plan</td>
</tr>
<tr>
<td>PSAK</td>
<td>Pernyataan Standar Akuntansi Keuangan or Indonesian GAAP</td>
</tr>
<tr>
<td>PT</td>
<td>Perseroan Terbatas or Limited Company</td>
</tr>
<tr>
<td>QA</td>
<td>Quality Assurance</td>
</tr>
<tr>
<td>R&amp;D</td>
<td>Research and Development</td>
</tr>
<tr>
<td>SAP</td>
<td>System, Application and Products in Data Processing</td>
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<tr>
<td>SCM</td>
<td>Supply Chain Management</td>
</tr>
<tr>
<td>SGM</td>
<td>Sari Husada’s famous brand</td>
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<tr>
<td>Acronym</td>
<td>Full Form</td>
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<tr>
<td>SHDA</td>
<td>Sari Husada’s bourse code</td>
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<tr>
<td>SH</td>
<td>Sari Husada</td>
</tr>
<tr>
<td>SNI</td>
<td>Standar Nasional Indonesia or Indonesian National Standard</td>
</tr>
<tr>
<td>SOP</td>
<td>Standard Operating Procedure</td>
</tr>
<tr>
<td>SPAP</td>
<td>Standar Profesi Akuntan Public or Indonesian GAAS</td>
</tr>
<tr>
<td>Tbk</td>
<td>Terbuka or Publicly Owned</td>
</tr>
<tr>
<td>TICM</td>
<td>Transparency International Chapter Malaysia</td>
</tr>
<tr>
<td>UMR</td>
<td>Upah Minimum Regional or Regional Minimum Wages</td>
</tr>
<tr>
<td>UN</td>
<td>United Nations</td>
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<tr>
<td>US</td>
<td>United States of America</td>
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<tr>
<td>VAT</td>
<td>Value Added Tax</td>
</tr>
<tr>
<td>WHO</td>
<td>World Health Organisation</td>
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<tr>
<td>UNICEF</td>
<td>United Nations International Children’s Emergency Funds</td>
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</table>