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## 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

AGUS SETIAWAN  
Drs. (Gadjah Mada University, Indonesia)  
M.Soc.Sc. (University of Birmingham, UK)

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.

I am indebted to the QUE Project, Department of Management, Faculty of Economics, Gadjah Mada University, Yogyakarta, who sponsored me to undertake the doctoral degree. My thanks also goes to all the interviewees who have provided their time and shared their experience. Special thanks to Mr. Noor Rachman and Dr. Suad Husnan who kindly helped to gain access for my research.

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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## **LIST OF ABBREVIATIONS AND TERMS**

ADB	Asian Development Bank
AGM	Annual General Meeting
Bapepam	Badan Pengawas Pasar Modal or Capital Market Supervisory Agency; previously Badan Penyelenggara Pasar Modal or Capital Market Executive Agency
BUMN	Badan Usaha Milik Negara or State Owned Enterprise
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CG	Corporate Governance
BOC	Board of Commissioners
BOD	Board of Directors
BPS	Biro Pusat Statistik or National Bureau of Statistic
DPK	Dana Purna Karya; a company owned by Sari Husada's pension fund
DPR	Dewan Perwakilan Rakyat or Indonesian House of Representatives
EKUIN	Ekonomi, Keuangan dan Industri or Economy, Finance and Industry
EMI	Enterprise Management Incentive
EPS	Earning per Share
ERP	Enterprise Resource Planning
ESOP	Employee Stock Option Program
EVA	Economic Value Added
EXACT	An accounting system for monitoring program at Sari Husada
FA	Finance and Accounting department
GAAP	Generally Accepted Accounting Principles
GAAS	Generally Accepted Auditing Standard
GATT	General Agreement on Tariffs and Trade
GCG	Good Corporate Governance
GMP	Good Manufacturing Practise

GMS	General Meeting of Shareholders
HACCP	Hazard Analysis and Critical Control Point
HQ	Headquarters
HRD	Human Resource Development
IAI	Ikatan Akuntan Indonesia or Indonesian Institute of Accountants
IMF	International Monetary Fund
Infes	Institute for Economic Studies
IPO	Innitial Public Offering
Jamsostek	Jaminan Sosial Tenaga Kerja or Social Insurance for Labour
JSX	Jakarta Stock Exchange
KPI	Key Performance Indicator
NCCG	National Committee on Corporate Governance
MT	Management Trainee
MUI	Majelis Ulama Indonesia or Indonesian Council of Ulama
NIS	Nutricia Indonesia Sejahtera
Numico	A new firm established after the Nuticia - Milupa - Cow and Gate merger; the parent company of Sari Husada
OECD	Organisation for Economic Co-operation and Development
PERC	Political and Economic Risk Consultancy
Perkasa	Persatuan Karyawan Sari Husada or Sari Husada Labour Union
PMA	Penanaman Modal Asing or Foreign Investment
PMDN	Penanaman Modal Dalam Negeri or Domestic Investment
Propenas	Program Pembangunan Nasional or Five Year Development Plan
PSAK	Pernyataan Standar Akuntansi Keuangan or Indonesian GAAP
PT	Perseroan Terbatas or Limited Company
QA	Quality Assurance
R&D	Research and Development
SAP	System, Application and Products in Data Processing
SCM	Supply Chain Management
SGM	Sari Husada's famous brand

SHDA	Sari Husada's bourse code
SH	Sari Husada
SNI	Standar Nasional Indonesia or Indonesian National Standard
SOP	Standard Operating Procedure
SPAP	Standar Profesi Akuntan Public or Indonesian GAAS
Tbk	Terbuka or Publicly Owned
TICM	Transparency International Chapter Malaysia
UMR	Upah Minimum Regional or Regional Minimum Wages
UN	United Nations
US	United States of America
VAT	Value Added Tax
WHO	World Health Organisation
UNICEF	United Nations International Children's Emergency Funds