



**UNIVERSITAS INDONESIA**

**ANALYSIS OF CORPORATE GOVERNANCE PRACTICES  
AT PT XYZ**

**THESIS**

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**FACULTY OF ECONOMICS  
MASTER OF MANAGEMENT PROGRAM  
JAKARTA  
JUNE 2011**



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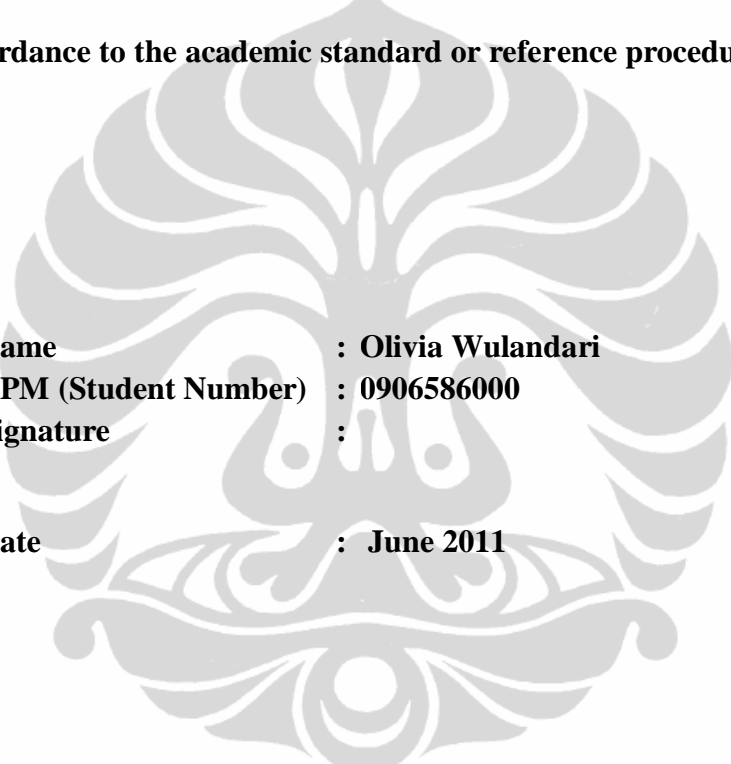
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Master of Management – Master Business Administration**

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**FACULTY OF ECONOMICS  
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JUNE 2011**

## **STATEMENT OF ORIGINALITY**

**This thesis represents my own effort,  
and all sources that are quoted or referred to,  
have been acknowledged  
in accordance to the academic standard or reference procedures**



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## CERTIFICATION PAGE

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## PREFACE

First of all, I would like to praise and thanks to Allah SWT for His blessed and grace so that I acquire guidance and strength in completing my study at Master of Management – Master of Business Administration program in Universitas Indonesia and also finishing this thesis. Accordingly in this occasion, I would like to give my special gratitude and sincerest thanks to the following many remarkable persons who already contributed to my success:

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This might be the end of my journey in Master of Management Universitas Indonesia, but it is also another new journey for me in contributing my knowledge in society.

Constructive critic, suggestion and recommendation would cover the knowledge's constrain reflected in this report. It would also help its development

in to something better, more complete, and needless to say, more useful. By this, hopefully, this report would at least, not follow the same faith as others – lost and forgotten in the silence of time. Finally, hopefully this thesis can be useful for those in need.

Jakarta, June 21, 2011

Author



**STATEMENT OF PUBLICATION APPROVAL  
OF FINAL ASSIGNMENT FOR ACADEMIC PUPRPOSE**

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## ABSTRACT

Name : Olivia Wulandari  
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Title : Analysis of Corporate Governance Practices  
at PT XYZ

This thesis analyzes corporate governance practices at PT XYZ's organ, based on its independence, activities, size, and competence, through questionnaires distributions, interviews, and observations. The analysis results, generally, the Company organs have already applied corporate governance principles. The shareholders' rights have been fulfilled through General Meeting of Shareholders. However, the minority shareholders rights had not been protected effectively. Board of commissioners' independence, size, and competence already accommodates its monitoring function. The audit committee has fulfilled current regulation for public company, regarding its independence and size. However, the audit committee has not performed effectively. Board of directors' composition and size has already sufficient, but the directors still have less comprehension on Good Corporate Governance principles.

Keywords: corporate governance, principle, board of commissioners, audit committee, board of director, characteristic.



## **ABSTRAK**

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*Judul* : Analisis mengenai Praktek Corporate Governance pada PT XYZ

*Tesis ini menganalisis praktik corporate governance pada organ-organ PT XYZ, yaitu berdasarkan independensi, aktivitas, size, dan kompetensinya, melalui pembagian kuesioner, wawancara, dan observasi. Hasil analisis, secara umum, Perseroan telah menerapkan prinsip-prinsip corporate governance. Hak-hak pemegang saham telah terpenuhi melalui Rapat Umum Pemegang Saham. Namun, hak pemegang saham minoritas belum terlindungi secara efektif. Independensi, size, dan kompetensi dari dewan komisaris sudah mengakomodasi fungsi pengawasan. Komite audit telah memenuhi peraturan sebagai perusahaan public, dalam hal independensi dan size. Namun, komite audit belum bekerja secara efektif. Komposisi dan ukuran dari dewan direksi sudah mencukupi, namun pemahaman direksi mengenai prinsip-prinsip Good Corporate Governance masih kurang.*

*Kata kunci*: corporate governance, *prinsip*, dewan komisaris, komite audit, direksi, dewan direksi, karakteristik.

## TABLE OF CONTENTS

COVER PAGE .....	i
STATEMENT OF ORIGINALITY.....	ii
CERTIFICATION PAGE .....	iii
PREFACE .....	iv
STATEMENT OF PUBLICATION APPROVAL .....	vi
ABSTRACT .....	vii
<i>ABSTRAK</i> .....	viii
TABLE OF CONTENTS .....	ix
LIST OF FIGURES .....	xi
LIST OF TABLES .....	xii
LIST OF APPENDICES .....	xiii
<b>1. INTRODUCTION .....</b>	<b>1</b>
1.1 Background .....	1
1.2 Problem Identification .....	3
1.3 Research Objectives .....	3
1.4 Research Benefits .....	3
1.4.1 Theoretical Benefits .....	4
1.4.2 Practical Benefits .....	4
1.5 Research Method .....	4
1.5.1 Source and Data Period.....	4
1.5.2 Type of Research .....	5
1.5.3 Data Analysis .....	5
1.6 Systematic of Thesis Writing.....	5
<b>2. LITERATURE REVIEW .....</b>	<b>7</b>
2.1 Agency Theory .....	7
2.2 Corporate Governance .....	10
2.3 Principles of Good Corporate Governance.....	13
2.4 General Meeting of Shareholders .....	16
2.4.1 Principles of General Meeting of Shareholders.....	16
2.4.2 Code Provisions of General Meeting of Shareholders.....	16
2.5 Board of Commissioners .....	18
2.5.1 Principles of Board of Commissioners .....	19
2.5.2 Role and Function of Board of Commissioners .....	19
2.5.3 Composition of Board of Commissioners .....	20
2.6 Board of Directors.....	22
2.6.1 Principles of Board of Directors.....	22
2.6.2 Role and Function of Board of Directors.....	23
2.6.3 Composition of Board of Directors .....	23
2.7 Audit Committee.....	23
2.7.1 Role and Function of Audit Committee .....	24
2.7.2 Composition of Audit Committee .....	26
2.8 Nomination Committee .....	27
2.8.1 Role and Function of Nomination Committee .....	27
2.8.2 Composition of Nomination Committee.....	28

2.9	Remuneration Committee.....	28
2.9.1	Role and Function of Remuneration Committee.....	28
2.9.2	Composition of Remuneration Committee .....	29
2.10	Risk Policy Committee.....	29
2.10.1	Role and Function of Risk Policy Committee.....	29
2.10.2	Composition of Risk Policy Committee .....	30
2.11	Corporate Governance Committee .....	30
<b>3.</b>	<b>COMPANY OVERVIEW .....</b>	<b>31</b>
3.1	The Market Overview for Tinsplate .....	31
3.2	Company Profile .....	32
3.3	Vision, Mission, and Strategy of PT XYZ .....	40
3.4	Principles of Corporate Governance .....	41
3.5	Corporate Governance Structure.....	42
3.5.1	General Meeting of Shareholders .....	43
3.5.2	Board of Commissioners.....	44
3.5.3	Internal Audit and Audit Committee .....	48
<b>4.</b>	<b>ANALYSIS AND DISCUSSION .....</b>	<b>53</b>
4.1	Distribution of Questionnaire and Interview .....	53
4.2	Checklist of Corporate Governance Structure Mechanism .....	55
4.3	Analysis of the Good Corporate Governance Implementation and Effectiveness.....	56
4.3.1	General Meeting of Shareholders .....	56
4.3.2	Board of Commissioners.....	60
4.3.2.1	Board of Commissioners Independence .....	61
4.3.2.2	Board of Commissioners Activities .....	64
4.3.2.3	Board of Commissioners Size .....	69
4.3.2.4	Board of Commissioners Competence.....	69
4.3.3	Audit Committee .....	74
4.3.3.1	Audit Committee Independence .....	74
4.3.3.2	Audit Committee Activities .....	76
4.3.3.3	Audit Committee Size .....	82
4.3.3.4	Audit Committee Competence .....	83
4.3.4	Internal Auditor .....	86
4.3.5	External Auditor .....	87
4.3.6	Board of Directors .....	88
4.3.6.1	Board of Directors Activities .....	88
4.3.6.2	Board of Directors Size .....	91
4.3.6.3	Board of Directors Competence.....	92
<b>5.</b>	<b>CONCLUSION AND RECOMMENDATION .....</b>	<b>97</b>
5.1	Conclusion .....	97
5.2	Research Limitation .....	99
5.3	Recommendation .....	100
	<b>REFERENCE .....</b>	<b>102</b>
	<b>APPENDIX</b>	

## LIST OF FIGURES

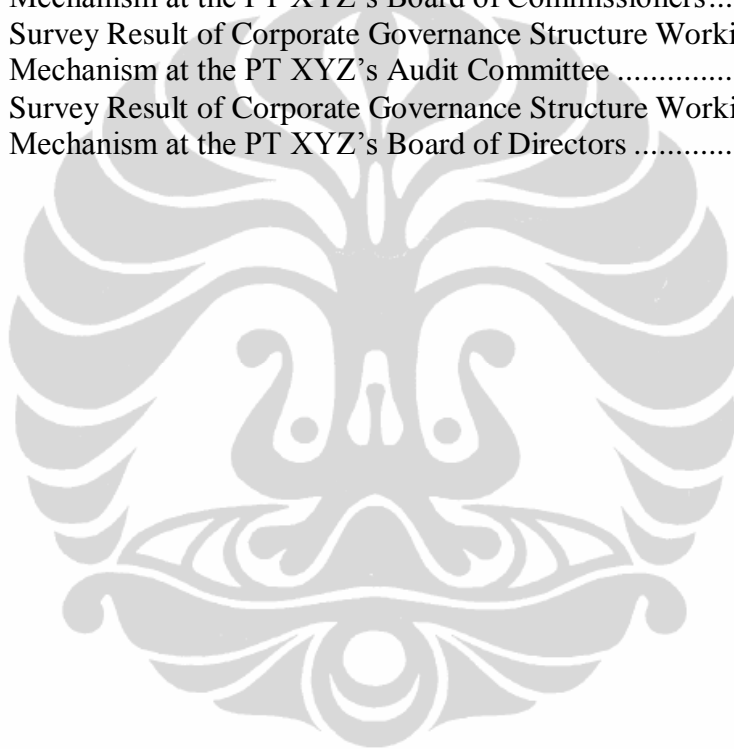
Figure 2.1	Board Structure in Two-Tier System in Indonesia .....	13
Figure 3.1	Products of PT XYZ.....	33
Figure 3.2	Organizational Structure in PT XYZ .....	37
Figure 4.1	BOC's Opinion about BOC Internal Meeting Frequency .....	65
Figure 4.2	BOC's Opinion about Joint BOC-BOD Meeting Frequency .....	66
Figure 4.3	BOC's Opinion about Joint BOC-Audit Committee Meeting Frequency .....	67
Figure 4.4	BOC's Statement about Knowledge in Accounting or Finance	71
Figure 4.5	BOC's Statement about Understanding of Company Business..	72
Figure 4.6	Audit Committee's Opinion about the Audit Committee Involvement in the External Auditor Selection Process.....	77
Figure 4.7	Audit Committee's Opinion about Audit Committee Internal Meeting Frequency.....	78
Figure 4.8	Audit Committee's Opinion about Joint Audit Committee – BOC Meeting Frequency.....	78
Figure 4.9	Audit Committee's Opinion about Joint Audit Committee – Internal Auditor Meeting Frequency.....	79
Figure 4.10	Audit Committee's Opinion about Joint Audit Committee – External Auditor Meeting Frequency.....	80
Figure 4.11	Audit Committee's Statement about Understanding of Finance	84
Figure 4.12	Audit Committee's Statement about Understanding of Accounting and Auditing .....	84
Figure 4.13	BOD's Opinion about BOD Internal Meeting Frequency.....	90

## LIST OF TABLES

Table 3.1	Company Shareholder Structure .....	34
Table 3.2	Company's BOC and BOD Meeting Attendance Record .....	48
Table 3.3	Company Audit Committee Meeting Attendance Record .....	52
Table 4.1	Respondent Record .....	56
Table 4.2	Annual General Meeting of Shareholders .....	57
Table 4.3	BOC Independence .....	61
Table 4.4	BOC Activities .....	64
Table 4.5	BOC Size .....	69
Table 4.6	BOC Educational Background .....	70
Table 4.7	BOC Competence .....	70
Table 4.8	BOC Age .....	72
Table 4.9	Audit Committee Independence .....	75
Table 4.10	Audit Committee Activities .....	76
Table 4.11	Audit Committee Size .....	82
Table 4.12	Audit Committee Educational Background .....	83
Table 4.13	Audit Committee Competence .....	83
Table 4.14	Audit Committee Age .....	85
Table 4.15	BOD Activities .....	89
Table 4.16	BOD Size .....	91
Table 4.17	BOD Competence .....	92
Table 4.18	BOD Age .....	92

## LIST OF APPENDICES

Appendix 1	Checklist Corporate Governance Structure Mechanism for General Meeting of Shareholders .....	A-1
Appendix 2	Checklist Corporate Governance Structure Mechanism for Board of Commissioners .....	A-2
Appendix 3	Checklist Corporate Governance Structure Mechanism for Audit Committee .....	A-6
Appendix 4	Checklist Corporate Governance Structure Mechanism for Board of Directors .....	A-8
Appendix 5	Survey Result of Corporate Governance Structure Working Mechanism at the PT XYZ's Board of Commissioners.....	A-10
Appendix 6	Survey Result of Corporate Governance Structure Working Mechanism at the PT XYZ's Audit Committee .....	A-16
Appendix 7	Survey Result of Corporate Governance Structure Working Mechanism at the PT XYZ's Board of Directors .....	A-21



# CHAPTER 1 INTRODUCTION

## 1.1 Background

Nowadays the importance of corporate governance is widely appreciated across the world. Excerpted from remarks on Indonesia's Code of Good Governance by Coordinating Minister for Economic Affairs, Good Corporate Governance (GCG) becomes an important pillar of market economy as it relates to the investors' confidence both in the companies as well as in the overall business environment. The implementation of Good Corporate Governance encourages fair competition and sustainable economic growth and stability.

At the beginning of the Asian economic crisis in mid-1997 was to put enormous pressure on the Indonesia government to move ahead with the process corporate governance reform, particularly in those areas where there had been strong resistance before the crisis. The impact of this crisis was very severe: the value of the rupiah fell by more than 80 % against the US dollar in the space of a few months; major conglomerates defaulted on their foreign and domestic debt repayments; inflation, unemployment and interest rates soared; and political stability began to unstable.

*Badan Pengawas Keuangan dan Pembangunan (BPKP)* stated that the background of the need for Good Corporate Governance can be viewed from the background of practical and academic background:

- a. From a practical background, viewed from the experience of the United States that should undertake corporate governance restructure as a result of the market crash in 1929. Allegedly, poor corporate governance as one cause of Indonesia's political crisis, which started in 1997 whose effects are still felt until today. The financial crisis that occurred in the United States at this time was also suspected due to failure to apply the principles of GCG, several cases of financial scandals such as Enron Corp., Worldcom, Xerox, and others involving top executives describe the company's failure to apply GCG principles.

- b. From the academic background, Good Corporate Governance requirements arising in connection with the principal-agency theory, is to avoid conflicts between principals and agents. Conflicts arise because of different interests must be managed such that the parties do not suffer losses. A corporation is formed and is a separate entity is the subject of law, so that the existence of the corporation and the interested parties (stakeholders) must be protected through implementation of Good Corporate Governance ([www.bpkp.go.id](http://www.bpkp.go.id)).

Recent years have witnessed an exponential growth in corporate governance. Improvements in corporate governance practice are being regulated at the global level. Corporate governance is a complete package about the way in which the board members keep track the running of a company by its managers, and how board members are responsible to shareholders and also to the company. This has implications for company behavior towards its employees, shareholders, the integrity and efficiency of economic condition of the company in the financial market. The company will usually outperform the competitors and will be able to attract the investor who can support the financial growth of the company. A poor corporate governance will leads the company to a financial problems and even fraud.

PT XYZ Tbk previously was a State-Owned Enterprise (*BUMN*) and now the company has successfully go public. According to the Decree of the Minister of State-Owned Enterprises No. KEP-117/M-MBU/2002, stated that all *BUMN* are required to apply consistently Good Corporate Governance and / or make Good Corporate Governance as the cornerstone of their operations. So company should follow these rules which that requires company to apply and implement all the principles of corporate governance by taking into account the provisions and norms and state statutes. Furthermore, the Good Corporate Governance' principles includes transparency, independence, accountability, and responsibility. After the company went public, the company is no longer a state-owned company, but became a private company owned by Japanese consortium. Therefore, the company has to continue the implementation of the principles of Good Corporate Governance rules for a public company from *Badan Pengawas Pasar Modal dan Lembaga Keuangan* (Bapepam-LK) and Indonesia Stock Exchange.



Moreover, at the time the company was making an Initial Public Offering (IPO), the company is not only own by the government just like when it was a state-owned companies. After the company conducted go public, then the owner of the company can be hundred or thousand peoples. So then the company must also be able to account optimization of the value of a company for its shareholders by also taking into consideration the interests of other stakeholders. In Indonesia, the Government has become more aware that for Good Corporate Governance to be successfully implemented, it needs to have the public support and the existence of good corporate governance (Indonesia's Code of Good Corporate Governance, 2006).

This research explores the development of Good Corporate Government practices in Indonesia nowadays particularly at PT XYZ and also analyzes the implementation of the corporate governance at PT XYZ with the existing principles of Good Corporate Governance.

## **1.2 Problem Identification**

Based on the above background of the problems, raised four research questions as follows:

1. How far PT XYZ has implemented the existing principles of Good Corporate Governance?
2. How is the awareness of PT XYZ's organs regarding the principles of Good Corporate Governance?
3. What constraints and problems are faced by PT XYZ in implementing the principles of Good Corporate Governance?
4. What kind of improvements that still can and need to be done in enhancing corporate governance practices in PT XYZ?

## **1.3 Research Objectives**

Based on research background and research questions outlined above, this research will be conducted in order to meet the following objectives:

1. To analyze how far PT XYZ has implemented the principles of Good Corporate Governance.

2. To identify the awareness of Company's management regarding the principles of Good Corporate Governance.
3. To identify constraints and problems in implementing the principles of Good Corporate Governance.
4. To seek appropriate improvement and provide recommendation for greater efficiency and better quality management for PT XYZ.

#### **1.4 Research Benefits**

The benefit of this research is intended to provide answer to the research question. Therefore, this research is expected to contribute or provide the following benefits.

##### **1.4.1 Theoretical Benefits**

Add insight and input for the development and assessment of the concept of corporate governance in the business world in Indonesia.

##### **1.4.2 Practical Benefits**

Provide information to management of PT XYZ, help to identify and to review the implementation of the principles of Good Corporate Governance, to formulate problems, and to propose improvement to problems that arise in implementing these principles. In addition, provide information and guidance for investors in making investment decisions in this company.

#### **1.5 Research Method**

##### **1.5.1 Source and Data Period**

The study of corporate governance that will be analyzed is using a qualitative data in the form of secondary data derived from PT XYZ annual report 2010 and financial statement 2010 as main data resources. Another source is from the result of the distribution of the questionnaire to the board of commissioners, audit committee, and board of directors who served until 2011.

### **1.5.2 Type of Research**

The study research process begins by searching references from the existing literatures in the university library. Literature research related to corporate governance theories and concepts and theories of other related issues will be conducted in order to conduct a review of the implementation of Good Corporate Governance in PT XYZ. The references are including journals, strategic management test books, and previous thesis. Moreover, the information also will be gathered from internet media that such as from Government's website, news paper, domestic and international studies related to corporate governance. For the field research, the exploratory research will be done by distributing questionnaires to the member of Company organs in order to obtain their perspectives regarding corporate governance practices at PT XYZ.

### **1.5.3 Data Analysis**

The data processing method used is descriptive method that is describing the corporate governance practices from the Company organs perspective based on the questionnaire. The data have been collected by using exploration research from the main source, that is, the annual report of PT XYZ.

## **1.6 Systematic of Thesis Writing**

This thesis presented in five chapters, where each chapter has its own emphasis as follows:

### **Chapter 1 Introduction**

This chapter describes the background, objectives, methods, and systematic plans of the research.

### **Chapter 2 Literature Review**

This chapter covers theoretical material for corporate governance including all the principles.

**Chapter 3 Company Overview**

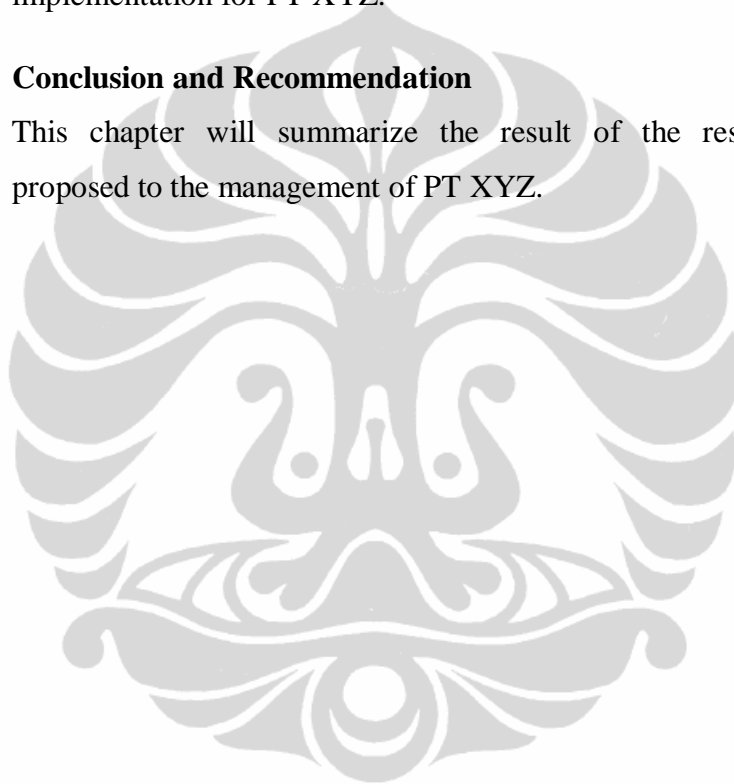
This chapter contains overview of the company which includes: company's profile, history, vision, mission, company's operational principle, and business structure.

**Chapter 4 Analysis and Discussion**

This chapter will discuss about the implementation of Good Corporate Governance principles at PT XYZ and the impact of that implementation for PT XYZ.

**Chapter 5 Conclusion and Recommendation**

This chapter will summarize the result of the research and proposed to the management of PT XYZ.



## **CHAPTER 2 LITERATURE REVIEW**

### **2.1 Agency Theory**

The discussion of corporate governance cannot be separated with the concept and the corporate system itself. A corporation is a mechanism established to allow different parties to contribute capital, expertise, and labor, for their mutual benefit (Hunger and Wheelen, 2002). According to Monks and Minow (2004), a corporation is a mechanism established to allow different parties to contribute capital, expertise, and labor, for the maximum benefit of all of them. Investors get the opportunity to participate in corporate profits without taking responsibility for the operation. The management has the chance to operate the company without taking the personal responsibility to provide the funds. So, in order to make both of these sustain, the shareholders have limited liability and limited involvement in the corporate affairs. That involvement includes the right to elect directors, and the fiduciary obligation of directors and management to protect their interest.

Agency theory having its roots in economic theory was exposed by Alchian and Demsetz (1972). Furthermore, a detailed theoretical exposition of agency theory developed by Jensen and Meckling (1976). Agency relationship defined as a contract under which one or more persons (the principal(s)) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent (Jensen and Meckling, 1976). The problems that arise as a result of corporate ownership as this system is that agents do not always make certain decisions which is aimed to meet the best interests of the principal. One of the main assumptions of agency theory is that the principal purposes and objectives of different agencies so as to bring the conflict because corporate managers tend to pursue his own personal purposes, such as trying to earn bonuses as high as possible. Managers tend to show behavior that led them to maximize their own self interests.

In agency theory, the agent may be succumbed to self-interest, opportunistic behavior and falling short of congruence between the aspirations of

the principal and the agent's pursuits. Even the understanding of risk defers in its approach. Although with such setbacks, agency theory was introduced basically as a separation of ownership and control (Bhimani, 2008). Holmstrom and Milgrom (1994) argued that instead of providing fluctuating incentive payments, the agents will only focus on projects that have a high return and have a fixed wage without any incentive component. Although this will provide a fair assessment, but it does not eradicate or even minimize corporate misconduct. Here, the positivist approach is used where the agents are controlled by principal-made rules, with the aim of maximizing shareholders value.

Hence, a more individualistic view is applied in this theory (Clarke, 2004). Indeed, agency theory can be employed to explore the relationship between the ownership and management structure. However, where there is a separation, the agency model can be applied to align the goals of the management with that of the owners. Due to the fact that in a family firm, the management comprises of family members, hence the agency cost would be minimal as any firm's performance does not really affect the firm performance (Eisenhardt, 1989). The model of an employee portrayed in the agency theory is more of a self-interested, individualistic and are bounded rationality where rewards and punishments seem to take priority (Jensen and Meckling, 1976). This theory prescribes that people or employees are held accountable in their tasks and responsibilities. Employees must constitute a good governance structure rather than just providing the need of shareholders, which maybe challenging the governance structure.

The corporation, in contrast, for example, to a partnership, separates ownership from operational control - this concept is, of course, fundamental to any definition of corporate governance and is commonly referred to as the agency issue, or agency theory. It is this separation which creates the need for systems of independent monitoring and control. Historically, it was the freedom that this separation created to take much bigger risks in order to expand that prevented for so long the permission of such organizations to exist, with the potential dangers it implied. And it is this freedom which has required mechanisms to be constructed to try and prevent it being abused.

All the participants who contributed to the capital are known as the owner (the principal), whereas participants who contribute the expertise and labor is called the agent (management company). The existence of two participants (the owner and agent), causing the problems concerning the mechanism should be established to harmonize the different interests between them. The concept of separation between the owner of the shareholders ownership and control by the management in the corporation raises the question whether the council (either the board of commissioners or board of directors) is really acting for the interests of the shareholders or not.

Conflict of interest between management and shareholders is the essence of the agency problem. In subsequent developments, the agency theory in a response more widespread because it is deemed better reflect the reality. Various thoughts about developing Good Corporate Governance, relies on agency theory in which management, were conducted with full adherence to various rules and regulations. The agency problem can occur because of asymmetric information between owners and management, when one party has information that is not owned by another party, this information is needed, especially in the capital markets with strong efficiency. Various means and efforts can be made by management to have more information than the investor, as a result of investors do not believe in the quality of the company and did not want to buy shares in a company that became the company's stock price down.

Conflicts of interest between management and shareholders can be minimized by a control mechanism that can align the interests of those associated. But with the emergence of this surveillance mechanism would raise the cost of the so-called agency cost. Agency costs incurred by the principal to oversee the performance management becomes a burden to companies that will reduce the profits generated which result in a decrease in company value. Therefore, the agency problem should be minimized with a variety of strategies for the firm value remains high.

## 2.2 Corporate Governance

Based on the agency theory, the theoretical study of corporate governance began to appear at the end of the 1980s. There is no single, accepted definition of corporate governance. There are substantial differences in definition according to which country is considered. The term corporate governance refers to the sets of mechanisms and processes "that help ensure that companies are directed and managed to create value for their owners while concurrently fulfilling responsibilities to other stakeholders.

The term corporate governance was first introduced by the Cadbury Committee in 1992. The definition of corporate governance most widely used is the system by which companies are directed and controlled (Cadbury Committee, 1992). More specifically it is the framework by which the various stakeholder interests are balanced, or, as the International Finance Corporation (IFC) states, "the relationships among the management, board of directors, controlling shareholders, minority shareholders and other stakeholders". The term is used in their report which was later known as the Cadbury Report (Cadbury Report is a name familiar to the Report of the Cadbury Committee on Financial Aspects of Corporate Governance: The Code of Best Practice), a report issued by the Cadbury-Schweppes in 1992. This committee was formed in May 1991 by the London Stock Exchange and the accounting profession and is chaired by Sir Adrian Cadbury to discuss the financial aspects of corporate governance. Committee formed as a manifestation of concern about activities of companies such as Maxwell Communications is then produced a Code of Best Practice which then must be implemented by all public companies in the British's empire.

The formulation of the definition of corporate governance used by the Forum for Corporate Governance in Indonesia (FCGI) also cites the definition used by the Cadbury Committee. The FCGI defines corporate governance as a set of rules that defines the relationship between shareholders, managers, creditors, the government employees, and other internal and external stakeholders in respect to their rights and responsibilities, or the system by which companies are directed and controlled. In addition, FCGI also appoints out that the objective of corporate governance is to create value added to the stakeholders.



Another comprehensive definition of corporate governance is also elaborated by the Organization for Economic Co-operation and Development (OECD), corporate governance involves a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined (OECD Principles of Corporate Governance, 2004).

Based on all the above definition we can conclude that corporate governance is a system that functions to direct and control the activities of the company's business. Corporate governance regulate the division of duties, rights and obligations for the parties concerned on the company, including shareholders, board members, managers, and all non-shareholder stakeholders. Corporate governance is also a structure to organize and achieve goals, and also to monitor the company's performance.

Good Corporate Governance defined as the system that regulates and controls the company to create value added for all stakeholders. There are two things that set forth in this concept, first, the importance of shareholder rights to obtain information correctly (accurately) and just in time and, second, the company's obligation to make disclosure (disclosure) is accurate, timely, and transparent to all information company performance, ownership, and stakeholders (YPPMI and SC, 2002).

Aside from the shareholders, stakeholders are those having an interest in a company and are directly affected by the strategic and operational decisions of the company, including employees, resource providers, and communities particularly in which the company operates. There should be a fair and equal relationship between a company and its stakeholders based on law and or through mutual agreements applicable to each respective party. Corporate governance has objectives to ensure that the interests of all interested parties including other stakeholders can be met.

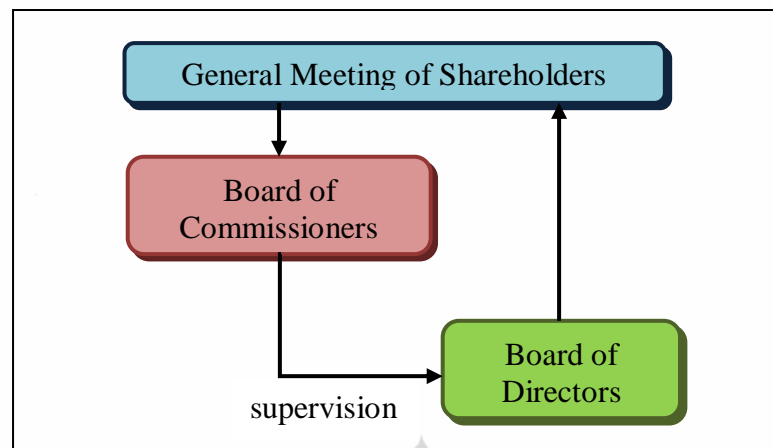
An academic study was held by Gompers, Ishii, and Metrick (2003) with sample of 1500 public company per year during 1990s in the United States. They found that those companies who received higher corporate governance rating and

stronger shareholder rights also had higher firm valuations, higher profits, higher sales growth, and also lower capital expenditures. In Indonesia, Forum for Corporate Governance in Indonesia (FCGI) stated on their website that there are some benefits that could be obtained by implementing the principles of Good Corporate Governance in the companies. The benefits are as follows (www.fcgi.or.id):

- a. Easier to raise capital.
- b. Lower cost of capital.
- c. Improved business performance and improved economic performance.
- d. Good impact on share price.

Continental European legal system or commonly known as two-tier system, has two separate entities namely the board of trustees (board of commissioners) and the management board (board of directors). The board of directors is responsible for managing and representing the company under the direction and supervision of the board of commissioners. In this system, members of the board of directors are appointed and can be replaced by the regulatory body (board of commissioners) at any time. The board of directors also must provide information to the board of commissioners and said things that proposed by the board of commissioners. Thus, the board of commissioners is primarily responsible for overseeing management tasks. The board of commissioners should not be involved in management tasks and they are not allowed to represent the company in transactions with third parties.

Countries that adapt the two-tier system are Denmark, Germany, Netherlands, and Japan, including Indonesia. Prior to the enactment of the Law of the Republic of Indonesia number 40 year 2007 concerning company law, the company law regulated in law number 1 year 1995. This new law defines a limited liability company as a legal entity which constitutes capital alliance, is established on the basis of agreement, undertakes business activity by authorized capital divided into shares and fulfills the requirements stipulated in this law as well as its technical rules. Here is the structure of the board of commissioners and the board of directors in two-tier system adopted by Indonesia.



**Figure 2.1 The Board Structure in Two-Tier System in Indonesia**

Source: FCGI, *The Roles of the Board of Commissioners and the Audit Committee in Corporate Governance*, 2008

### 2.3 Principles of Good Corporate Governance

The Good Corporate Governance principle is one of the main pillars in the development of corporate governance (Rezaee, 2007). These basic principles serve as a foothold for the company to select and define the activities that must be done in the implementation of corporate governance. In addition, by holding on to the principles of good then the various activities can work together to achieve corporate governance goals, namely to provide added value to the company as an economic entity as well as social entities.

The Organization for Economic Co-operation and Development (OECD) Principles of Corporate Governance were endorsed by OECD Ministers in 1999 and have since become an international benchmark for policy makers, investors, corporations and other stakeholders worldwide. The Principles are intended to assist OECD and non-OECD governments in their efforts to evaluate and improve the legal, institutional, and regulatory framework for corporate governance in their countries, and to provide guidance and suggestions for stock exchanges, investors, corporations, and other parties that have a role in the process of developing Good Corporate Governance. The Principles focus on publicly traded companies, both financial and non-financial. However, to the extent they are deemed applicable, they might also be a useful tool to improve corporate governance in non-traded

companies, for example, privately held and state-owned enterprises. The OECD Principles (2004) covers the following matters:

- a. Ensuring the basis for an effective corporate governance framework  
The corporate governance framework should promote transparent and efficient markets, be consistent with the rule of law and clearly articulate the division of responsibilities among different supervisory, regulatory and enforcement authorities.
- b. The rights of shareholders and key ownership functions  
The corporate governance framework should protect and facilitate the exercise of shareholders' rights.
- c. The equitable treatment of shareholders  
The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. All shareholders should have the opportunity to obtain effective redress for violation of their rights.
- d. The role of stakeholders in corporate governance  
The corporate governance framework should recognize the rights of stakeholders established by law or through mutual agreements and encourage active co-operation between corporations and stakeholders in creating wealth, jobs, and the sustainability of financially sound enterprises.
- e. Disclosure and transparency  
The corporate governance framework should ensure that timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, ownership, and governance of the company.
- f. The responsibilities of the board  
The corporate governance framework should ensure the strategic guidance of the company, the effective monitoring of management by the board, and the board's accountability to the company and the shareholders.

Development of corporate governance models typically has a common goal in establishing the basic principles. However, so far no single basic principles that are considered the most perfect and most correct. Although there are

variations in the use of the basic principles of corporate governance, but most of the institutions develop models also use some of the same principles of corporate governance. In Indonesia, a committee in charge of Good Corporate Governance has been established, namely the *Komite Nasional Kebijaksanaan Corporate Governance* (KNKG).

*Komite Nasional Kebijaksanaan Corporate Governance* (KNKG) established the principles that are expected to enable companies to be implemented in every aspect of business and within the entire company. Here are five principles set forth in the Code of Good Corporate Governance:

a. Transparency

A company must provide material and relevant information in a way that is easily accessible and understandable by stakeholders to maintain objectivity in conducting business. A company must take the initiative to disclose not only the issues mandated by laws and regulations, but also other information deemed necessary by shareholders, creditors and other stakeholders to form a decision.

b. Accountability

A company must be accountable for its performance transparently and fairly. Thus, a company must be managed in a proper and measurable manner, in such that it is aligned with the interest of a company by also considering the interest of shareholders and other stakeholders. Accountability is a prerequisite to achieve sustainable performance.

c. Responsibility

A company shall abide by laws and regulations and fulfill its responsibility to the communities and environment for the purpose of maintaining long term sustainability of the business and to be recognized as a good corporate citizen.

d. Independency

To accelerate the implementation of the GCG principles, a company must be managed independently with an appropriate balance of power, in such a manner that no single company's organ shall dominate the other and that no intervention from other party shall exist.

e. Fairness

In conducting its activities, a company must always consider the interests of shareholders and other stakeholders based on a fairness principle.

Basically, the guidelines of Good Corporate Governance outline include guidelines that regulate matters relating to all the stakeholders. The structures of a company, consisting of the General Meeting of Shareholders, the board of commissioners, and the board of directors, have an important role in implementing the GCG effectively. These structures of a company shall carry out their respective functions in accordance with an applicable provision based on the principle that each organ is independent in carrying out its duty, functions, and responsibility in the sole interest of the company. Here will be mentioned briefly organs of a company according to Indonesia's Code of Good Corporate Governance (KNKG, 2006).

## **2.4 General Meeting of Shareholders**

### **2.4.1 Principles of General Meeting of Shareholders**

The General Meeting of Shareholders is a company's organ that facilitates shareholders to make important decisions regarding their investment in a company, by observing provisions in the articles of association and the rules and regulations. Decisions taken in the General Meeting of Shareholders must be based on the long term interest of a company. The General Meeting of Shareholders and or shareholders cannot intervene in the exercise of the duty, function and authority of the board of commissioners and the board of directors, without curtailing the authority of the General Meeting of Shareholders to carry out its rights in accordance with the articles of association and laws and regulations, including the replacement or termination of the members of the board of commissioners and or the board of directors (KNKG, 2006).

### **2.4.2 Code Provisions of General Meeting of Shareholders**

The following code provisions of General Meeting of Shareholders were lead by the KNKG in 2006. The decision made in General Meeting of Shareholders must be conducted properly and transparently by considering

matters necessary to safeguard the long term interest of a company, including but not limited to:

- a. Members of the board of commissioners and the board of directors appointed in the General Meeting of Shareholders shall consist of individuals that are fit and proper for the company. For a company with a nomination and remuneration committee, the appointment of the members of the board of commissioners and the board of directors shall take into account the opinion of the committee that were rendered by the board of commissioners to those having the right to nominate the candidates to the General Meeting of Shareholders.
- b. Approval on report submitted by the board of commissioners and the board of directors shall consider the quality of the report that relates to GCG.
- c. For a company with an audit committee, the appointment of an external auditor shall consider opinion of the committee rendered to the board of commissioners.
- d. In circumstance where the articles of association and or the laws and regulations require a decision of the General Meeting of Shareholders regarding certain matters related to the company's business, any decision made shall consider the proper interest of stakeholders.
- e. Decisions regarding the appropriation of bonuses, gratification and dividends shall take into account the company's financial condition.

KNKG also stated that the General Meeting of Shareholders shall be held in accordance with the interest of the company and by observing the articles of association and laws and regulations, and with a proper preparation, to enable the adoption of a valid decision. For such purpose:

- a. The shareholders shall have the opportunity to propose an agenda item for the General Meeting of Shareholders in accordance with laws and regulations.
- b. The notice for a General Meeting of Shareholders shall include information regarding the agenda, date, time and venue of the General Meeting of Shareholders.
- c. The material of each agenda item included in the notice for the General Meeting of Shareholders shall be available at the company's premises as from

the day the notices for General Meeting of Shareholders are made until the day the General Meeting of Shareholders is held, to enable the shareholders to participate actively in the General Meeting of Shareholders and cast a responsible vote. If such material is not yet available at the time the notice was made, then the material shall be made available before the General Meeting of Shareholders is held.

- d. Other explanations regarding the agenda of the General Meeting of Shareholders may be given before and or at the time of the General Meeting of Shareholders.
- e. The minutes of the General Meeting of Shareholders shall be available at the company's premises, and each company shall provide the facility that enables the shareholders to read the minutes.

The conduct of the General Meeting of Shareholders is the responsibility of the board of directors. For such purpose, the board of directors shall prepare and conduct the General Meeting of Shareholders properly and by taking into account all the code provisions that has been mentioned above. In condition that the board of directors is unable to conduct the General Meeting of Shareholders, then the convening of the General Meeting of Shareholders is conducted by the board of commissioners or shareholders in accordance with laws and regulations and the articles of association.

## **2.5 Board of Commissioners**

The management of a limited liability company in Indonesia adopts a two-tier system which is also called as Two Boards System. These two boards, namely the board of commissioners and the board of directors, have a clear authority and responsibility based on their respective functions as mandated by the articles of association and laws and regulations (fiduciary responsibility). However, both have the obligation to maintain the sustainability of the company in the long term. Therefore, the board of commissioners and the board of directors shall have the same perception of the vision, mission, and company values (KNKG, 2006).



### 2.5.1 Principles of Board of Commissioners

The board of commissioners as an organ of the company shall function and be responsible collectively for overseeing and providing advices to the board of directors and ensuring that the Company implements the Good Corporate Governance. However, the board of commissioners is prohibited from participating in making any operational decision. Each of the members of the board of commissioners, including the Chairman, has equal position. The duty of the Chairman of the board of commissioners as *primus inter pares* is to coordinate the activities of the board of commissioners. For the board of commissioners to be able the effectively exercise its duties, the following principles shall be observed (KNKG, 2006):

- a. The composition of the board of commissioners shall enable it to make effective, right and timely decision and to act independently;
- b. The members of the board of commissioners must be professional that possess the integrity and capability to enable them to carry out their function properly including to ensure that the board of directors shall observe the interest of all stakeholders;
- c. The oversight and advisory function of the board of commissioners includes the acts of prevention, improvement, and suspension.

### 2.5.2 Role and Function of Board of Commissioners

Board of Commissioners has several functions and roles as follows (KNKG, 2006):

- a. The board of commissioners is prohibited from participating in any operational decision making. In circumstances where the board of commissioners makes decisions regarding matters as stipulated in the articles of association or laws and regulations, such decisions shall be made within its supervisory function, so that decisions on operational activity shall remain the responsibility of the board of directors. The authority of the board of commissioners shall be carried out within their supervisory and advisory function.
- b. In circumstances where it is deemed necessary in the interest of the company, the board of commissioners may impose sanction on members of the board of

directors in the form of a suspension, subject to further determination by General Meeting of Shareholders.

- c. In circumstances where a vacancy occurs in the board of directors or in a situation as stipulated by laws and regulations and the articles of association, the board of commissioners may carry out the function of the board of directors on a temporary basis.
- d. To enable the exercise of its function, the members of the board of commissioners, collectively and individually, are entitled to have access to, and to obtain information regarding the company on a timely and complete basis.
- e. The board of commissioners shall have rules and guidelines set out in a charter to ensure that its duties can be executed in an objective and effective manner. The charter can also be used as one of the tools for performance evaluation purposes.
- f. In performing its oversight function, the board of commissioners shall submit an accountability report for overseeing the conduct of the management by the board of directors in the framework of obtaining the release and discharge (*acquit et decharge*) from General Meeting of Shareholders.
- g. In carrying out its duty, the board of commissioners may form committees. Any proposal from the committees shall be submitted to the board of commissioners for approval. For publicly listed companies, state-owned enterprises, province and region-owned companies, companies that raise and manage public funds, companies of which products or services are widely used by public, and companies with extensive influence on environment, an audit committee shall be established, whereas other committees are formed as required.

### **2.5.3 Composition of Board of Commissioners**

Based on studies ever conducted, the results of these studies have not provided a consensus regarding the relationship between the size of the board with the effectiveness of the board of commissioners. Jensen (1993) found that the board with a larger size it would be less likely to be able to work effectively, so that board with increasingly independent and smaller size would be more effective

in monitoring. Meanwhile, earnings of firms with the smallest size of its board (with a minimum of five board members) are perceived as more informative by market participants (Vafeas, 2000). Yermack (1996) found that an inverse association between board size and firm value. This research also showed that investors appear to welcome decreases in board size and to disapprove of board expansion.

Anderson *et al.* (2004) found that the board tenure is positively related to corporate yield spreads, suggesting that as board tenure increases, managers are potentially more able to influence or sway the board opinion. Moreover, based on previous study by Vafeas (2003) and Bebchuk *et al.* (2002), a board with longer tenure may have a positive effect on corporate governance given their greater expertise and willingness to confront a CEO versus a younger, newer Board member, or a negative effect if tenure and age result in a closer connection with the CEO and hence greater cronyism, as suggested by Vafeas (2003) and Bebchuk *et al.* (2002).

The terms and existence of the independent commissioner in Indonesia legally known after the publication of the Decree of Directors of Jakarta Stock Exchange Kep-315/BEJ/06-2000 and Exchange Listing Regulation No. 339/BEJ/07-2001 dated July 21, 2001. It remarks that listed companies are required to have independent commissioners proportionally equal to the shares owned by the non-controlling shareholders. According to the Decree of Directors of Jakarta Stock Exchange Kep-305/BEJ/07-2004, the minimum requirement of a minimum of independent commissioner is 30% of all members of the board of commissioners. Moreover, Beasley (1996) found that the proportion of outside members on the board is inversely related to the likelihood of financial statement fraud.

According to the Indonesian Company Law or *Undang-Undang tentang Perseroan Terbatas* (UUPT) Number 40 year 2007, respectively article 108, the board of commissioners shall have the tasks of supervising the performance of the of the board of directors and policies made by the board of director, and also giving advice to the board of directors. Furthermore, article 114 of UUPT declares that the board of commissioners shall faithfully and responsibly carry out the tasks

for the interest and business of the company. UUPT also requires individual who can be appointed as member of the board of commissioners is that are capable of taking legal action. Except within 5 years before their appointment as member of the board of commissioner ever been declared bankrupt, being a member of the board of director or the board of commissioners, or ever been convicted of a crime that hurt state finances and/or relating to the financial sector. In order to enhance the implementation of Good Corporate Governance principles for Issuers and Public Companies, Bapepam-LK (*Badan Pengawas Pasar Modal dan Lembaga Keuangan*) also set requirements and responsibilities of the candidates of member of director and commissioner on Decision of the Chairman of Bapepam-LK KEP-45/PM/2004 Rule No.IX.I.6.

## **2.6 Board of Directors**

### **2.6.1 Principles of Board of Directors**

The board of directors as a company organ shall function and be responsible collegially for the management of the company. Each member of the board of directors can carry out its duty and take decisions in accordance with their respective assignments and authorities. However, the execution of tasks by each member of the board of directors remains to be a collective responsibility. The position of each respective member of the board of directors including President Director is equal. The duty of the President Director as *primus inter pares* is to coordinate the activities of the board of directors (KNKG, 2006). Furthermore, as stated by KNKG (2006), in order to be able exercise its duties effectively, the following principles shall be observed:

- a. the composition of the board of directors shall enable it to make effective, right and timely decisions and to act independently;
- b. the members of the board of directors must be professional that possess the integrity, experience and capability required for carrying out their respective duties;
- c. the board of directors shall be responsible to manage the company for the purpose of achieving profitability and ensuring the company's sustainability;

- d. the board of directors shall be accountable for its management to the General Meeting of Shareholders in accordance with applicable laws and regulations.

In general, a board of directors acts as the shareholders' agent in charge of running the company. The Board in a large corporation is not involved in running daily operations of the company. Instead, the board handles major decisions and delegates responsibility for everything else to corporate officers.

### **2.6.2 Role and Function of Board of Directors**

The duties of the board of directors shall cover 5 (five) main tasks, namely in the areas of management, risk management, internal control, communication, and social responsibility (KNKG, 2006).

### **2.6.3 Composition of Board of Directors**

The composition of the board of directors shall be of sufficient size that suits the complexity of the business of the company by taking into account the effectiveness in decision making. The composition of the board of directors shall enable it to make effective, right and timely decisions and to act independently (KNKG, 2006).

## **2.7 Audit Committee**

According to Decision of The Chairman of *Badan Pengawas Pasar Modal dan Lembaga Keuangan* (Bapepam-LK) KEP-29/PM/2004 Rule No. IX.I.5 regarding guidelines on establishment and working implementation of audit committee, it is stated that audit committee is a committee established by a board of commissioners in order to support the Board to do its duties and tasks. It also stated that independent commissioner is a member of boards of Commissioners which:

- a. comes from outside of Issuers or Public Companies;
- b. does not have any direct or indirect ownership in Issuers or Public Companies;
- c. is not affiliated with Issuers and Public Companies, commissioner, director, or majority shareholder of Issuers or Public Companies; and

- d. does not have business relationship either direct or indirectly which relates with business activity of Issuers or Public Companies.

In addition, as stated in the Decree of the Minister for State-Owned Enterprises No. KEP-117/M-MBU/2002 article 14 regarding the implementation of corporate governance practices in State-Owned Enterprises, the board of commissioner or the board of trustees should establish an audit committee that works collectively and helps the board of commissioner or the board of trustees in performing their duties. Those state-owned enterprises are:

- a. that have business activities in the field of Insurance and Other Financial Services;
- b. which became a publicly listed company;
- c. which is in preparation for privatization; and
- d. that have assets worth at least Rp. 1,000,000,000,000 (one billion rupiahs).

#### **2.7.1 Role and Function of Audit Committee**

The audit committee shall review candidates for external auditors including their remuneration, and submits its recommendation to the board of commissioners. In addition, the audit committee shall function to assist the board of commissioners to ensure that (KNKG, 2006):

- a. financial reports are presented appropriately in accordance with the generally accepted accounting principles;
- b. internal control structure is adequate and effective;
- c. internal and external audits are conducted in accordance with applicable audit standards; and
- d. audit findings are followed up by the management.

Audit committee has authority to access any company's records, or employees' information, funds, assets and other resources related to its duties. In performing its authority, audit committee shall work together with party performing internal audit function. Audit committee shall hold meetings whose frequency must meet minimum requirements of Commissioner Meeting stipulated in Article of Association. Moreover, each audit committee meetings shall be noted on the minutes meetings which signed by all attended audit committee members (KNKG, 2006).

According to FCGI (2008), audit committee exercises responsibility in three areas, namely financial reporting, corporate governance, and corporate control.

**a. Financial Reporting**

The responsibility of the audit committee in the area of financial reporting is to provide assurance that final disclosures made by management reasonably portray financial condition, result of operations, and plans and long term commitments of the company.

**b. Corporate Governance**

The responsibility of the audit committee in the area of corporate governance is to provide assurance that the corporation is in reasonable compliance with pertaining laws and regulation, is conducting its affairs ethically, and is maintaining effective controls against employee conflict of interest and fraud.

**c. Corporate Control**

The responsibility of audit committee for corporate control includes an understanding of the company's key financial reporting, risks areas and system of internal control. The committee should monitor the control process through internal auditing, as the scope of the internal audit should encompass the examination and evaluation of the adequacy and effectiveness of the organization's system of internal control and the quality of performance in carrying out assigned responsibilities.

Activities of the audit committee, as well as on the board of commissioners, will determine whether the audit committee has been carrying out its duties effectively. Anderson *et al.* (2004) found that the cost of corporate debt declined as with increasing frequency of audit committee meeting. This shows that the activity of audit committee in the form of audit committee meeting routinely will increase corporate governance.

Menon and Williams (1994), Beasley *et al.* (2000), Anderson *et al.* (2003), Xie *et al.* (2003), and Zou and Chen (2004) showed that frequency of audit committee meeting has positive and significant influence on the quality of financial report. Meanwhile, Bedard *et al.* (2004) found that frequency of audit committee meeting does not influence on earning management. Lin *et al.* (2006)

also did not find significant effect on the earnings restatement. Based on that past research, it can be concluded that the frequency of audit committee meeting which will be held, affect the effectiveness of the monitoring role of audit committees on the financial statements.

As stated at Decision of Chairman of Bapepam-LK, audit committee shall hold meetings whose frequency must meet minimum requirements of Commissioner meeting and each audit committee meetings shall be noted on the minutes meetings which signed by all attended audit committee members.

### **2.7.2 Composition of Audit Committee**

Krishnan (2005) found a negative association between the presence of internal control problem and the number of audit committee members with financial expertise. It also found the evidence that audit committees with financial expertise are less likely to be associated with the incidence of internal control problems. Another research suggests that a large audit committee tends to enhance the audit committee's status and power within an organization (Kalbers and Fogarty, 1993). Pincus *et al.* (1989) suggest that audit committees are an expensive monitoring mechanism and that firms with greater agency costs are potentially more willing to bear these expenses. In this context, firms with larger audit committees are willing to devote greater resources to overseeing the financial accounting process. Anderson *et al.* (2004) found that audit committee size is inversely related to the cost of debt. It suggests that larger audit committees provide greater monitoring of the financial accounting process.

From previous empirical findings, it can be concluded that the number of members of the audit committee has an important role in determining the effectiveness of the audit committee's role in monitoring the quality of financial reporting, it is just not clear whether the effect is positive or negative. In Indonesia, establishment and working implementation of audit committee is suggested by Bapepam-LK (*Badan Pengawas Pasar Modal dan Lembaga Keuangan*). It requires Issuers or Public Companies must have audit committee and must have audit committee charter. In addition, it stated that audit committee consists of at least one independent commissioner and at least 2 (two) other members from outside of the Issuers or Public Companies.



The composition of the audit committee shall be such so that it can accommodate with the complexity of the company by taking into account the effectiveness in decision making. For publicly listed companies, state-owned enterprises, province and region-owned companies, companies that raise and manage public funds, companies of which products or services are widely used by public, and companies with extensive influence on environment, the audit committee is chaired by an independent commissioner and the members may consist of Commissioners and or professionals from outside the company. One of the members should have an accounting and or finance background (KNKG, 2006).

## **2.8 Nomination Committee**

### **2.8.1 Role and Function of Nomination Committee**

According to KNKG (2006), nomination committee assists the board of commissioners in determining the selection criteria and candidates for the board of commissioners and board of directors. The nomination committee also has the duty to assist the board of commissioners in preparing candidates for the board of commissioners and Directors. The board of commissioners may propose the candidates to obtain approval by General Meeting of Shareholders decision in accordance with the provisions of the Articles of Association. The existence of the nomination committee and its work shall be reported in the General Meeting of Shareholders.

As stated in the Decree of the Minister for State-Owned Enterprises No. KEP-117/M-MBU/2002 article 14 regarding the implementation of corporate governance practices in state-owned enterprises, nomination committee in charge on selection criteria and on nomination procedures for member of the board of commissioners or board of trustees, board of directors, and other executives in the enterprise. This committee also in charge on making an assessment system and providing recommendations on the size of board of commissioners or Board of Trustees and board of directors of the state-owned enterprise.

## **2.8.2 Composition of Nomination Committee**

The nomination committee is chaired by an independent commissioner and/or professional from outside the company. This applied for publicly listed companies, state-owned companies, province and region owned companies, companies that raise and manage public funds, companies which products or services are used by the public, as well as companies that have a broad impact on the environment.

As stated in Bank Indonesia Regulation (*Peraturan Bank Indonesia* or PBI) No. 8/4/PBI/2006 article 40 concerning Good Corporate Governance implementation by commercial banks, members of the nomination committee in commercial banks must at least consist of an independent commissioner, a commissioner, and an executive officer. Moreover, if the number of the nomination committee members are more than 3 (three) persons then the number of independent commissioner members must at least be 2 (two) people.

## **2.9 Remuneration Committee**

### **2.9.1 Role and Function of Remuneration Committee**

According to KNKG (2006), remuneration committee assists the board of commissioners in determining the remuneration system for the board of commissioner and board of director. The remuneration committee also has the duty to assist the board of commissioners in proposing the amount of the remuneration for the board of commissioners and Directors. The board of commissioners may propose the remuneration to obtain approval by General Meeting of Shareholders decision in accordance with the provisions of the Articles of Association. The existence of the remuneration committee and its work shall be reported in the General Meeting of Shareholders.

As stated in the Decree of the Minister for State-Owned Enterprises No. KEP-117/M-MBU/2002 article 14 on the implementation of Good Corporate Governance practices in State-Owned Enterprises, remuneration committee is responsible for preparing the salary and allowances system as well as recommendations on:

- a. evaluation of the system;
- b. options granted, including stock option;
- c. pension system; and
- d. compensation system and other benefits in terms of reducing employee.

### **2.9.2 Composition of Remuneration Committee**

The remuneration committee is chaired by an independent commissioner and/or professional from outside the company. This applied for publicly listed companies, state-owned companies, province and region owned companies, companies that raise and manage public funds, companies which products or services which used by the public, as well as companies that have a broad impact on the environment (KNKG, 2006).

As stated in Bank Indonesia Regulation No. 8/4/PBI/2006 article 40 concerning Good Corporate Governance implementation by commercial banks, members of the remuneration committee in commercial banks must at least consist of an independent commissioner, a commissioner, and an executive Officer. Moreover, if the number of the remuneration committee members are more than 3 (three) persons then the number of independent commissioner members must at least be 2 (two) people.

## **2.10 Risk Policy Committee**

### **2.10.1 Role and Function of Risk Policy Committee**

Risk policy committee is responsible for assisting the board of commissioners in reviewing the risk management system established by the board of directors as well as assess the company's risk tolerance (KNKG, 2006). In addition, as stated at Bank Indonesia Regulation No. 8/4/PBI/2006, risk policy committee in commercial banks must at least accomplish the following:

- a. evaluation of the consistency between risk management policies with the implementation of the policies;
- b. monitoring and evaluation of the implementation of the risk policy committee's and the risk policy work unit's tasks, in order to give a recommendation to the board of commissioners.

Moreover, as stated in the Decree of the Minister for State-Owned Enterprises No. KEP-117/M-MBU/2002 article 14 on the implementation of Good Corporate Governance practices in state-owned enterprises, risk policy committee assigned to conduct regular assessments and provide recommendations on business risk and the type and amount of insurance covered by the state regarding the business risk.

### **2.10.2 Composition of Risk Policy Committee**

Member of the risk policy committee consists of the members of the board of commissioners, but if necessary, it may also appoint professionals from outside the company (KNKG, 2006). Moreover, as stated in Bank Indonesia Regulation No. 8/4/PBI/2006 article 39, members of the risk policy committee in commercial banks must at least consist of an independent commissioner, an independent party with expertise in finance, and an independent party with expertise in risk management. Moreover, if the number of the remuneration committee members are more than 3 (three) persons then the number of independent commissioner's members must at least be 2 (two) people. The risk policy committee's members who are independent commissioners and independent parties as referred to in paragraph must at least reach 51% (fifty one percent) of all members of the risk policy committee.

### **2.11 Corporate Governance Committee**

Corporate governance committee assists the board of commissioners in reviewing the overall Good Corporate Governance policies established by the board of directors as well as assessing the consistency of its application, including those concerned with business ethics and corporate social responsibility. Member of the corporate governance committee consists of members of the board of commissioners, but if necessary, may also appoint professionals from outside the company. However, when it is deemed necessary, the corporate governance committee should be merged with the nomination and remuneration committee (KNKG, 2006).

## **CHAPTER 3 COMPANY OVERVIEW**

### **3.1 The Market Overview for Tinsplate**

Today, the prospect for tinsplate manufacturers in Indonesia is very wide open in line with Indonesia's economic growth which improving and also growing industrial development of canned food and beverage which became the largest consumer packaging products tinsplate. Based on data from the Ministry of Industry, during the third quarter of 2010, food and beverage industry grew 4.23% higher than the first quarter which grew 1.9% ([www.koran-jakarta.com](http://www.koran-jakarta.com)). Along with the increasing sales of canned food then the demand for tin plate is also expected to increase as well.

Furthermore, today's consumer demands also continue to increase, especially in terms of quality of the purchased products. One of important factor which become the critical public concerns, particularly for food products, is the product safety aspect. Consequently, the level of tinsplate popularity as an alternative type of packaging continues to increase significantly with the advantage typical of a durable and anti rust. Similarly, the condition of the global market for tinsplate products which very promising. In the Asia, Europe and the United States recorded an annual growth rate is increasing since the strong demand from food and beverage sectors.

Starting from U.S. financial crisis on September 2008, this crisis then triggered the series of crises of global recession. This condition is also brought negative influence on the world's steel business, including tinsplate industry. The crisis would negatively affect the performance of steel companies in general. Tinsplate as one part of the steel business cannot be separated from the impact of this crisis. Real evidence of the impact of the crisis was the decreasing absorption tinsplate consumers, resulting in reduced consumption of tinsplate nationally in Indonesia.

Facing these problems, it is realized the importance of applying best practice from the principles of Good Corporate Governance. By implementing the principles of Good Corporate Governance in a good and right way, it is expected

by the company to achieve the goals to be achieved by the company and also to improve the performance of the tinplate industry.

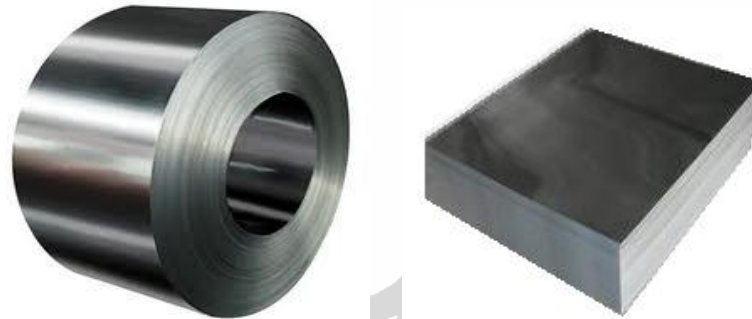
### 3.2 Company Profile

Based on the information collected from the PT XYZ's 2009 Annual Report, the following are the historical overview of the Company. Begins in 1973, a feasibility study to establish tinplate plant in Indonesia was conducted by PT Tambang Timah together with BHP Steel Australia and ended with a conclusion that that the construction of tinplate plant in that year has not been feasible. In 1980, the feasibility study was continued by PT Tambang Timah and PT Krakatau Steel collaborated in partnership with Kaiser Engineers International Corp. USA. This study resulted that the tinplate plant was feasible to set up. This result was followed up with the implementation of the project and the design specifications of the project, international tenders, bid evaluation and selection. The process was held in 1981 until 1982. Finally in March 1983, it was officially started the implementation of project design development funds tinplate plant with a capacity of 130.000 tons per year production run. It was consortium of Mannesmann Demag Sack GmbH and Hitachi Zosen Corp. who worked on construction. Finally on November 2, 1985, President of the Republic of Indonesia inaugurated the plant which has been completed.

PT XYZ is the first company in Indonesia, which produces tinplates of the quality acceptable to the international market. PT XYZ established based on Notary Deed No. 45 on August 19, 1982 by Notary Imas Fatimah, S.H., and was amended with the Notary Deed No. 85 of the same notary dated May, 30, 1983. The deed of establishment was approved by The Ministry of Justice based on its Decision Letter No. C2-4497.HT.01.01.TH.83 dated June 15, 1983 and was published in *Lembaran Berita Negara Republik Indonesia* No. 73 dated September 13, 1983, Supplement No. 828.

PT XYZ produces tinplate commercially since January 1986. This company is the sole tinplate producer in Indonesia to produce tinplate quality with international standards which are used as raw materials for milk cans, food, paint, general use and others. PT XYZ's tin-plated steel products are produced in two

forms Coil Tinplate and Sheet Tinplates. Coil Tinplate is tinplate in the form of coils and Sheet Tinplate is tinplate in the form of sheets.



**Figure 3.1 Products of PT XYZ**

Source: PT XYZ, 2010

The Company offers its products in various thicknesses and sizes according to the specifications required by the customers. Currently, production is mainly focused on thinner gauge tinplates, which are superior in quality and carry a premium over the price of thicker gauge versions. Almost 70% of tinplate products of this company are used for packaging food and beverages. In 2009 NIKL achieve 55% market share of national consumption of tinplate in Indonesia (PEFINDO, 2010).

Based on data from Human Resource Department of PT XYZ, at the end of 2010, the Company employs 419 employees, consisting of 416 permanent employees and 3 contract employees. About 90% of employees, especially those who in charge of production, production support, administrations and finance functions are assigned in the production facilities located in Cilegon. The remaining 10% which handling administrative functions, finance, sales and marketing are at the Head Office in Jakarta.

At 14 December 2009, PT XYZ was officially go public. The company officially listed its shares in the Indonesia Stock Exchange. At the same time, PT XYZ went through shares divestment by PT Krakatau Steel where 55% of shares previously owned by PT Krakatau Steel are acquired by Nippon Steel Consortium. This Nippon Steel Consortium consists of Nippon Steel Corporation, Nippon Steel Trading Co., Ltd, Mitsui & Co., Ltd and Metal One Corporation.

After the Company carried out the Initial Public Offering, the shareholder structure as of 31 December 2010 is as showed in Table 3.1.

**Table 3.1 Company Shareholder Structure**

<b>Shareholders</b>	<b>2010 (%)</b>
Nippon Steel Corporation	35,00
PT Krakatau Steel (Persero) Tbk.	20,10
Mitsui Co., Ltd	10,00
Nippon Steel Trading Ltd.	5,00
Metal One Corporation	5,00
PT Baruna Inti Lestari	4,90
Public	20,00

Source: PT XYZ, 2010

After PT XYZ privatized and also went public in 2009, then management must be ensured in meeting the interest of all of its shareholders and other stakeholders. By becoming a public company is expected would bring benefits to the Company, among others, to obtain a higher recognition of the stakeholders, credibility, market valuation for the Company, increase access to capital, and corporate governance better. Privatization can significantly change PT XYZ's corporate governance profile over time as the government's ownership stake decreases. Therefore, the implementation of corporate governance is very important to ensure that this company is well managed and able to meet the interests of all stakeholders.

With the change of ownership of this company, the improvement corporate governance practices on the agenda of work that must continue. In addition, changing in reference of corporate governance, which from a State-Owned Company became a public company that has been privatized by the Nippon Steel Consortium, becomes a crucial and essential for the sustainability of PT XYZ. Nippon Steel Consortium itself as an organization seek to achieve sustainable improvement in corporate value and to stand together as a trusted member of society and in their pursuit of these objectives, the corporate governance structure receives constant performance evaluation. Therefore, it is realized the importance of the commitment of all stakeholders in corporate governance standards of the



best and are in accordance with the culture that has been embedded by the Nippon Steel Consortium, based on best practice in the world.

Through the integration of PT XYZ's business bases in Asian markets with Nippon Steel's technological capabilities, the company aims to reinforce the competitiveness of this new Indonesian consolidated subsidiary, thereby steadily expanding its presence in the Indonesian steel can market. PT XYZ also intends to strengthen its production of tinplates for steel cans in Asia by coordinating the strategic operations with Nippon Steel.

Good Corporate Governance application in PT XYZ is set forth in the form of charters, codes of conduct and operating procedures covering a wide and comprehensive spectrum of areas throughout the organization. The company has designed Good Corporate Governance Manual valid as of 2 January 2004, which covers:

a. Good Corporate Governance Manuals

Good Corporate Governance Manuals represents an elaboration of Good Corporate Governance principles, current laws and regulations, the decision of the Minister of State-Owned Enterprises No. Kep117/M-MBU/2002 on the implementation of good corporate governance practices in State-Owned Enterprises, the values of corporate culture, vision and mission, as well as the best practices of Good Corporate Governance. This manual was made as the foundations and guidelines in managing the Company so that its implementation will be align with the Good Corporate Governance standard.

b. Company's Code of Conduct

Code of Conduct of the Company explains about business activities that are allowed and not allowed in running the Company so that the principles of Good Corporate Governance can be implemented well.

c. Audit Committee's Charter

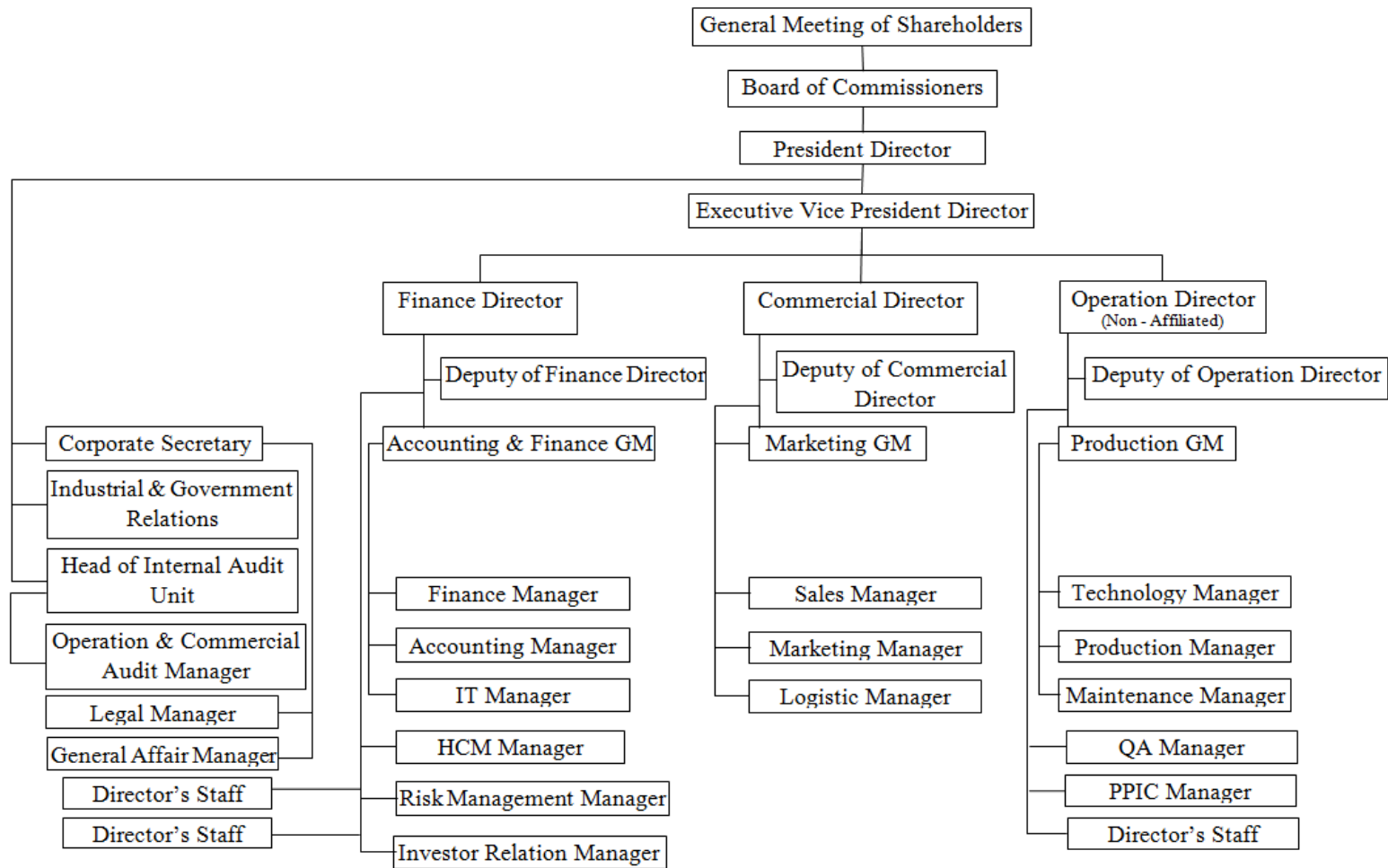
In the Charter of the audit committee, it is stated the rules that regulate the establishment, position, authority, roles and responsibilities of the audit committee as well as the boundaries and working procedures between the board of commissioner, directors, external auditors, internal auditors and other related parties.

After PT XYZ transformed into public company and is no longer became State-Owned Enterprises, the operational framework and governance structure that has been established previously is aligned with legislation (including the Law of Capital Market and Stock Exchange and the Limited Liability Company Act), government regulation, Articles of Association of the Company and international best practices and standards. The current organizational structure of PT XYZ, as stated in Company's Annual Report 2010, is showed in Figure 3.2 on the next page.

PT XYZ, as a public company, must comply with relevant provisions set forth in the disclosure rules Stock Exchange and Capital Markets. In addition, for the fulfillment of compliance, the Company is expected to interact actively with stakeholders in providing updated information related to any developments and changes that occurred in the Company. During the year 2010, the Company has been distributed information using various communication media as follows:

- Press conference : 3 times
- Analyst Meeting : 1 time
- Quarterly Financial Report : 3 times
- Annual Report : 1 time
- Public Expose : 1 time
- Press Release : 4 times
- AGMS : 1 time
- Correspondence with IDX and Bapepam-LK : 50 times

Meanwhile, communication for internal company, with and between employees, is also fundamental in promoting coordination, solid teamwork and culture building. Several channels of communication that have been provided for this purpose include a regular newsletter or bulletin named "*BULAT*" and the intranet. Furthermore, in the efforts to serve the interests of all stakeholders, PT XYZ offers an extensive access to corporate information and data at all times. The company is presently used website, email, telephone, and facsimile as media of communication in order to build solid relationship and communication with the stakeholders.



**Figure 3.2 Organizational Structures in PT XYZ**

Source: PT XYZ, 2010

The board of directors in PT XYZ is responsible for managing the Company, by formulating strategic decisions to control resources and implementing programs related to business as well as other organizational interests to achieve pre-determined short-term, medium-term, and long-term corporate objectives. The Board members are required to observe internal and external codes and rules as the working regulatory framework. Based on the Board of Directors Charter, the board of directors has duties and responsibilities to direct and manage the Company in accordance to the objectives of the Company and consistently strive to promote productivity, quality, effectiveness and efficiency in order to maximize profitability and secure sustainability. The composition of the board of directors in PT XYZ at the end of 2010 consists of a President Director, an Executive Vice President Director, a Finance Director, a Commercial Director, and an Operational Director.

The composition of the Company's board of directors at the end of 2010, which was resolved by the Annual General Meeting of Shareholders held at March 24, 2010 are as follows:

- **President Director**

He is an Indonesian citizen. He was born in 1958 (52 years old). He was appointed as President Director since 2006. Other management positions previously held by him were as Expert Staff to the board of directors (2001), Head of the Sales Division (2001-2002) and Commercial Director (2002-2006). He obtained his Bachelor's degree in Economics from Padjajaran University in 1983 and his Master's degree in Economics also from Padjajaran University in 2002.

- **Executive Vice President Director**

He is a Japanese citizen. He was born in 1960 (50 years old). He was appointed as Executive Vice President Director of the Company since 2010. From 2007 and up to now concurrently serves as Tinplate Mill General Manager, Human Affairs Division (Director), Nippon Steel Corp. He joined Nippon Steel Corporation since 1985, with previous management positions that he held were as Manager, Continuous Annealing Sec., Cold Strip Mill-II, Yawata Works (1990-1992), Manager, Cold Strip Mill-II, Tinplate & TFS

Div., Yawata Works (1992-1993), Manager, Production & Technical Control Dept., Production & Technical Control Div., Yawata Works (1993-1994), Manager, Production Planning Dept., Technical Administration & Planning Div. (1994-1997), Manager, Tinplate Technical Dept., Tinplate Mill, Yawata Works (1997-2000), Group Manager, GAPL Project Group, Sheet & Coil Div., Yawata Works (2000-2003), Group Manager, Tinplate Technical Dept., Tinplate Mill, Yawata Works (2004-2007) and Superintendent (General Manager), Tinplate Mill, Yawata Works (2007-2009). He graduated with Master of Metallurgical Engineering from Nagoya University Graduate School in 1985.

- Finance Director

He is an Indonesian citizen. He was born in 1960 (50 years old). He was appointed as Finance Director of the Company since 2007. Other management positions that he previously held were as CT General Manager of Treasury of PT Krakatau Steel (Persero) Tbk (2002-2003), General Manager of Accounting of PT Krakatau Steel (Persero) Tbk (2003 – 2004) and General Manager of Treasury of PT Krakatau Steel (Persero) Tbk (2004-2007). He obtained his Bachelor's degree in Economics from Padjajaran University in 1986 and his Master's degree in Industrial Engineering from the Institute of Technology Bandung in 1994.

- Commercial Director

He is an Indonesian citizen. He was born in 1953 (57 years old). He was appointed as Commercial Director of the Company since 2006. Other management positions that he previously held were as General Manager of Production Planning at PT Krakatau Steel (Persero) Tbk (1996-2001), General Manager of the Training Centre at PT Krakatau Steel (Persero) Tbk (2001), General Manager of Marketing at PT Krakatau Steel (Persero) Tbk (2001-2004) and General Manager of Quality Assurance at PT Krakatau Steel (Persero) Tbk (2004-2006). He obtained his Bachelor's degree in Mechanical Engineering from the Institute of Technology Sepuluh Nopember Surabaya in 1981 and his Master's degree in Material Science from Wollongong University, Australia in 1996.

- Operational Director (Non-Affiliated Director)

He is an Indonesian citizen. He was born in 1952 (58 years old). He was appointed as Operational Director of the Company since 2006. Other management positions that he previously held were as Manager of Cold Rolling Mill of PT Krakatau Steel (Persero) Tbk (1998 - 2003) and General Manager of Factory Maintenance at PT Krakatau Steel (Persero) Tbk (2003 - 2006). He obtained his Bachelor's degree in Mechanical Engineering from the National College for Technology in 1982 and his Master's degree in Material Science from the Wollongong University, Australia in 1994.

### 3.3 Vision, Mission, and Strategy of PT XYZ

The company visions of PT XYZ are as follows:

1. Vision 2009  
To become a company of tinsplate provider with competitive prices in AFTA region.
2. Vision 2013  
To become an integrated and the best tinsplate company in AFTA region.
3. Vision 2020  
To become an excellent steel packaging company in AFTA region.

In addition, The Company continuously makes efforts to be an important part of hygienic, healthy and safe food and beverages supply chain to the public. Meanwhile the mission of PT XYZ is to produce tinsplate of prime quality with a competitive price and on time delivery for the customer's satisfaction.

In a year of 2009, PT XYZ set its strategy to be a leading and competitive company in facing any possible challenge by the Company. Therefore, the Company will utilize all available resource through good relationship with all stakeholders and hopefully the Company will be more solid and more competitive. The corporate strategies that were stated on their 2009 annual report are as follows:

- Increase sales volume and market share.  
Increase production capacity from 130,000 ton per year to 160,000 ton per year. This step coincides with the addition of production facilities that can

produce scroll cut (sheets of tinsplate which have been cut in accordance with consumer's demand).

- Sales in US Dollar to minimize the risk of fluctuating exchange rates.

The Company offered alternative domestic sales in US Dollar as natural hedging for US Dollar exposure. Throughout 2009, sales in US Dollar contributed around 25% of the Company's total sales.

- Sales strategy that focuses on food segments which require better quality and greater prices.

Expanding market focused on food segment as it offered a greater profit margin for the Company. The Company produces higher quality tinsplate compared to imported tinsplate from certain countries that were sold at a relative lower price.

- Carry out a Product Mix in the next 5 (five) years.

The Product Mix that will be carried out by the Company includes the production of thinner gauges or thinner tinsplate products. This is to anticipate the usage of the Company's substitution products such as plastic packaging, aluminum foil and cardboard boxes.

- Penetration of new markets

There is an opportunity to export tinsplate to countries in the South Asian region. Based on a number of factors such as price and the demand of quality products that meet Company standards, countries within this region are potential region for the Company to aim for to market its products.

### **3.4 Principles of Corporate Governance**

In PT XYZ, implementation of Good Corporate Governance facilitates optimal management of risks faced by the business. This is achieved with full application of the following five principles of Good Corporate Governance:

#### **a. Transparency**

The transparency principle was implemented by the company to provide prompt, adequate and accurate information to its Shareholders and other Stakeholders, adhering to current regulations and Good Corporate

Governance best practices through a simple and applicable information system.

b. Accountability

The company has applied accountability by driving the employees and/or Company divisions to be aware of their rights and obligations, duties and responsibilities and also their authority. The implementation of the principle of accountability was manifested through clear task delegation between the divisions.

c. Responsibility

The Company is responsible for obeying existing law and regulations, including those that are related to labor, tax, competition, health, work safety, etc.

d. Independency

This independence is implemented by the Company with constant respect to rights and obligations, duties and responsibilities and also authority of each divisions. The Company believes that with optimal implementation of the independence principle, the entire divisions can conduct its business properly, maximum decision making and the best management for the Company.

e. Fairness

Shareholders are entitled to attend and submit their vote at the Annual General Shareholders Meeting in accordance to current rules is one of the implementation of the fairness principle in this Company. In addition, the Company will treat all of its partners fairly and equivalent and also will provide a safe and healthy working environment for its employees based on the Company's capabilities and current regulations.

### 3.5 Corporate Governance Structure

PT XYZ has a corporate governance structure that adopted Two-Tier Board, which is the separation of position and function between the board of commissioners and board of directors. The following are the corporate governance structure of PT XYZ which stated in their Annual Report 2010.



### 3.5.1 General Meeting of Shareholders

The General Meeting of Shareholders, abbreviated as GMS, is the highest corporate governance organ within the governance structure in PT XYZ. The General Meeting of shareholders is entitled to make decisions that are not incorporated within the supervisory and management functions performed by the board of commissioners and the board of directors respectively. General Meeting of Shareholders here covers the Annual General Meeting of Shareholders, held once a year, and the Extraordinary General Meeting of Shareholders, which can be held as required.

As stated in the Articles of Association of PT XYZ, the Annual General Meeting of Shareholders shall be held no later than 6 (six) months after the fiscal year ended. In addition, also stated that the Annual General Meeting of Shareholders has the following agenda:

- a. The delivery of annual reports by the board of directors which has been reviewed by the board of commissioners to obtain approval the Annual General Meeting of Shareholders. In addition, the Directors also have to communicate the Financial Statements of the Company in order to have endorsement
- b. Report on Supervisory Duties as conducted by the board of commissioners.
- c. Approved the appropriation of the Company's profits, surely if the Company has positive retained earnings.
- d. Other events that have been proposed as it should be taking into account the provisions of the Articles of Association.

After PT XYZ went through privatization and Initial Public Offering, the Company held a General Meeting of Shareholders at 24 March 2010. General Meeting of Shareholders as one of the governance structure in this Company does their duties such as:

- a. Approved the Company's Annual Report and approved the Report on Supervisory Duties as conducted by the board of commissioners for the fiscal year 2009, and endorsed the Financial Statements of the Company for the year ended on December 31, 2009 as have been audited by public accountants.

- b. Approved the appropriation of the Company's profits for the fiscal year 2009. Approved to appoint public accountant to perform an audit on the Company's Financial Statements for the fiscal year 2010 and to grant authority to board of directors to appoint Replacement of Public Accountant Firm if the Public Accountant Firm appointed based on rules and regulations of capital market cannot carry out its tasks, and to grant authority upon the board of commissioners to determine terms and conditions for such appointment.
- c. Endorsed the amount of *tantiem* for the members of the Boards of Directors and the board of commissioners and granted authority upon the board of commissioners to determine the salaries and benefits provided for members of the board of directors for the year 2010.
- d. Approved to delegate authority on the board of commissioners for necessary actions related to additional capital injection in conjunction with the Management and Employee Stock Option Plan (MESOP) program phase I.
- e. Accepted Report on Results of the Initial Public Offering.
- f. Accepted the resignation of the Company's Commissioners and appointed the Executive Vice President Director and new members of the board of commissioners.

### **3.5.2 Board of Commissioners**

Board of Commissioners as one organ of the company, responsible to supervise and advise on the management of the Company which is run by a board of directors through an active role in overseeing, monitoring, and evaluating strategic decisions are formulated and implemented by the board of directors. The board of commissioners also ensures the implementation of Good Corporate Governance practices in each business activity and across all levels of the organization. In accordance to the BOC Charter, the duties and responsibilities of the BOC comprise the following:

- Performing oversight on management policies and management of the Company and its businesses as carried out by the board of directors.
- Assessing and evaluating as well as providing approval for the Company's Long-Term Plan, the Annual Budget, periodic reports and annual report as prepared by management.

- Providing counsel to the board of directors, including oversight on implementation of the Company's Long-Term Plan, the Annual Budget and the Articles of Association as well as resolutions of the GMS and existing regulatory framework to protect the interest of the Company in accordance to its corporate objectives.
- Presiding over the GMS, including providing opinions, recommendations and assessments on the development taking place in the Company as required.

The composition of the board of commissioners of PT XYZ at the end of 2010 consists of a President Commissioner, three Commissioners, and two independent commissioners. Based on the board of commissioners Charter and Board of Directors Charter, the board of commissioners and board of directors carry out their duties and responsibilities respectively through separate board of commissioners meetings and board of directors meetings, and, whenever necessary, convene joint board of commissioners and board of directors meetings which serve as a forum for coordination and discussion of strategic issues between the Boards.

The Company's Annual General Meeting of Shareholders which held on March 24, 2010 resolved the composition of the board of commissioner at the end of 2010 as follows (Company's Annual Report 2010):

- President Commissioner

The President Commissioner of PT XYZ is a Japanese Citizen. He was born in 1961 (49 years old). He was appointed as President Commissioner of the Company in 2010. He obtained his bachelor degree from Faculty of Law, the University of Tokyo in 1984. Since 2009 and up to 2010, he concurrently serves as General Manager, Tin Mill Products Sales Division, Flat Products Division Nippon Steel Corporation. He joined Nippon Steel Corporation since 1984, and previously held the positions of Contract Dept., Production Scheduling & Contracting Div., Kamaishi Works (1984-1986), Planning Sec., Personnel & Labor Planning Dept., Labor Relations Div., Head Office (1986-1991), Manager, Personnel Sec., Personnel Dept., Hirohata Works (1991-1994), Manager, Labor Planning Dept., Labor Relations Div., Head Office (1994-1997), Group Manager, Personnel Dept., Nagoya Works (1997-2000),

Manager, Personnel Dept., Personnel & Labor Relations Div., Head Office (2000-2005) and Group Manager, Personnel Dept., Personnel & Labor Relations Div., Head Office (2005-2009).

- Commissioner 1

He is an Indonesian citizen. He was born in 1959 (51 years old). He obtained his Bachelor's degree in Mechanical Engineering from the Institute of Technology Sepuluh Nopember Surabaya in 1983. He was appointed as Commissioner of the Company in 2010 and previously as President Commissioner in 2009. Since 2007 and up to now concurrently serves as Finance Director of PT Krakatau Steel (Persero) Tbk. His previous positions was as Petroleum Engineer at PT Caltex Pacific Indonesia (1984-1987), Head of Marketing of Surabaya Corporate Branch of PT Bank Niaga Tbk (1987-1993), Vice President of Citibank (1993- 2001), Managing Director of PT Bahana Pembinaan Usaha Indonesia (Persero) (2001-2006) and Director of PT Humpuss (2006-2007).

- Commissioner 2

He is a Japanese citizen. He was born in 1953 (58 years). He obtained his bachelor degree from Faculty of Law at the University of Tokyo in 1975. He was appointed as Commissioner of the Company in 2010. Since 2007 and up to 2010, he holds concurrent positions as Executive Counsellor of Nippon Steel Corporation and Managing Director of Nippon Steel Southeast Asia Pte. Ltd. He joined with Nippon Steel Corporation since 1975, with previous positions as Manager, General Administration Department, Hirohata Works (1982-1984), Manager, Automotive Flat Products Sales Department I (1984-1989), Group Manager, Tobata Production Scheduling Department, Yawata Works (1989-1991), Group Manager, Flat Products Department I, Flat Products Sales Division (1991-1994), Group Manager, Automotive Flat Products Sales Department (1994- 2000), General Manager, Automotive Flat Products Sales Division, Flat Product Division (2000-2003) and General Manager, Nagoya Sales Office (2003-2007).

- Commissioner 3

He is a Japanese citizen. He was born in 1955 (55 years old). He obtained his bachelor degree from Faculty of Letters at the University of Tokyo in 1978. He was appointed as Commissioner of the Company in 2010. Since 2009 and up to 2010, he also holds the positions of Executive Officer, Nippon Steel Trading Co., Ltd. as well as Managing Director, Nippon Steel Trading (Singapore) Pte Ltd., PT Nippon Steel Trading Indonesia and Nippon Steel Trading (M) Sdn Bhd. He joined with Nippon Steel Corporation since 1978, with previous positions as Export Dept Cold Rolled Steel Export Section (Tokyo) (1981-1985), Manager Nippon Steel USA Los Angeles Office (1985-1990), Manager Export Dept Beam and Rail Section (Tokyo) (1990-1992), Inland Steel, USA (1992-1994), Manager Nippon Steel USA Chicago Office (1994-1999), Manager Tin Mill Products Export Dept Tin Mill Products Sales Division (Tokyo) (1999-2001), Group Leader Tin Mill Products Export Dept Tin Mill Products Sales Division (2001-2003), General Manager, Sales Administration, I/N Kote (USA) (2003-2007), General Manager Oversea Trade (Tokyo), Nippon Steel Trading Co., Ltd. (2007-2008) and General Manager, Overseas Administration & Planning Dept., Nippon Steel Trading Co., Ltd. (2008-2009).

- Independent Commissioner 1

He is an Indonesian citizen. He was born in 1952 (58 years old). He obtained his Bachelor's degree in Business Administration from University of Diponegoro in 1979. He was appointed as independent commissioner of the Company in 2010 after previously serving as commissioner in 2009 and President Commissioner in 2008. Since 2007 and up to now he concurrently serves as Director General of Small and Medium Enterprises. His previous experience was as Secretary of the National Board of Export Development (1998-2002), Head of Public and Community Affairs (2002-2005) and Inspector General of the Department of Industry (2005-2007).

- Independent Commissioner

He is an Indonesian citizen. He was born in 1960 (50 years old). He obtained his Bachelor's degree in Mathematics from the Institute of Technology

Bandung in 1988. He was appointed as independent commissioner of the Company in 2010 and has served as commissioner since 2009. Since 1998 and up to 2010, he concurrently serves as Managing Partner of Adhinusa Advisory. His previous positions was Manager of the Merchant Corporate Banking Division, Bank Niaga (1988-1994), General Manager of the Merchant Corporate Banking Division, Bank Jaya (1994-1997) and Vice President of PT Bakrie Capital Indonesia (Holding) (1997-1998).

In 2010, there were in total 1 (one) board of commissioners meeting, 39 (thirty nine) board of directors meetings, and 5 (five) joint board of commissioners meeting and board of directors meetings. The Company's board of commissioners, board of directors meetings, and joint board of commissioners meeting and board of director meetings attendance are showed on Table 3.2.

**Table 3.2 Company's BOC and BOD Meeting Attendance Record**

<b>Board of Commissioners</b>	<b>BOC Meeting</b>	<b>Joint BOC-BOD Meeting</b>
President Commissioner	1	4
Commissioner 1	1	5
Commissioner 2	1	3
Commissioner 3	1	3
Independent Commissioner 1	1	5
Independent Commissioner 2	1	5
<b>Total</b>	<b>1</b>	<b>5</b>

Source: PT XYZ, 2010

### **3.5.3 Internal Audit and Audit Committee**

PT XYZ has an internal audit unit called as *Satuan Pengawasan Intern* (SPI). This internal audit unit is a functional and administrative working unit that is directly responsible to the President Director and also submits report on activities and audit results to the audit committee. Moreover, the internal audit unit is responsible for providing assurance and consultation, independent and objective, which is designed to create added value and improve the operational performance of the Company.

In line with the Decision of the Chairman of Bapepam-LK No. KEP-496/BL/2008 Rule No.IX.I.7. dated 28 November 2008 concerning Forming and Charter's Compilation Guidance of Internal Audit Unit, internal audit has made changes and adjustments to the Internal Audit Unit Charter on 26 November 2010. This Internal Audit Charter serves as manual and guidelines for performance of duties of internal audit. As stipulated in the Internal Audit Charter which has been endorsed by the President Commissioner and President Director, the functions of internal audit covers the following activities:

1. Operational audit
2. Commercial audit
3. Special or investigate audit
4. Consultation in the form of facilitation and observation of particular operational activities.

PT XYZ's internal audit unit is led by the Head of the Internal Audit Unit. Based on conclusions or findings of evaluation and audit on the Company's business activities, SPI provides objective and independent evaluation with end result in the form of recommendations to the President Director. The number of SPI personnel is matched to the requirement of the working unit and audit activities. PT XYZ's internal audit unit is led by the Head of the Internal Audit Unit. The current Head of the Internal Audit Unit has served since July 2010. Previously, he has held the positions of Supervisor - General Manager in Industrial Relation prior to joining the internal audit as Head of the Internal Audit Unit.

Throughout 2010, Internal Audit Unit undertook the following activities:

- a. Performed scheduled audit 2010

Based on Annual Audit Plan of PT XYZ's SPI, SPI were conducted review of 12 audit objects throughout 2010. Of these 12 audit objects, a total of 6 Audit Reports (LHA) was prepared and submitted to the President Director and audit committee.

- b. Performing special / investigative audit  
During 2010, SPI has conducted 8 special / investigative audits and produced 8 Audit Reports (LHA).
- c. Monitoring and completion of follow-up on audit Findings  
During 2010, SPI carried out monitoring and completed follow-up on Audit Report 2009 which remained in open status as well as monitoring and completed Audit Report 2010.
- d. Achieved consultation on internal control as requested by the auditee
- e. Based on the Internal Audit Charter, SPI makes evaluation on the Company's internal control system
- f. Completion of Follow-up on Findings of the External Auditor  
SPI has concluded follow-up on findings of audit performed by BPK in 2008 and Findings of the independent auditor for compliance with the law and compliance with internal control for the year ending on 31 December 2009.
- g. Preparation of the Annual Audit Plan (PKAT) for 2011  
SPI has prepared its Annual Audit Plan (PKAT) 2011, which consists of audit plan, work programs and also education program for SPI personnel. SPI prepares its annual audit plan on the basis of risk indicators as determined in the Audit Universe of Internal Audit. Internal Audit Program emphasizes high and extreme risks faced in the operations of the Company's core business.

The audit committee at PT XYZ supports the board of commissioners in performing oversight on management of the Company by the board of directors. This audit committee has several duties and responsibilities as follows:

- a. To monitor and advise on improving the quality of financial reporting by the Company.
- b. To secure adequacy of internal control mechanism with sufficient capability to limit potential infringements in the management of the Company.
- c. To assess the qualifications and independency of the internal and external auditors in order to enhance the quality of the internal and external audit performed.
- d. To detect and raise issues requiring the BOC's attention, including the Company's compliance with the law and relevant rules and regulations.



As stated at the Decision Letter of the Board of Commissioners No. 04/DK/Kpts/2010 dated 24 March 2010, the members of the audit committee at XYZ comprised of the following:

- Chairman/Member 1

He is an Indonesian citizen. He was born in 1960 (50 years old). He obtained his Bachelor's degree in Mathematics from the Institute of Technology Bandung in 1988. He was appointed as Independent Commissioner of the Company in 2010 and has served as Commissioner since 2009. Since 1998 and up to 2010, he concurrently serves as Managing Partner of Adhinusa Advisory. His previous positions was Manager of the Merchant Corporate Banking Division, Bank Niaga (1988-1994), General Manager of the Merchant Corporate Banking Division, Bank Jaya (1994-1997) and Vice President of PT Bakrie Capital Indonesia (Holding) (1997-1998).

- Member 2

He is an Indonesian citizen. He was born in 1952 (58 years old). He obtained his Bachelor's degree in Business Administration from Diponegoro University in 1979. He was appointed as Independent Commissioner of the Company in 2010 after previously serving as Commissioner in 2009 and President Commissioner in 2008. Since 2007 and up to now he concurrently serves as Director General of Small and Medium Enterprises. His previous experience was as Secretary of the National Board of Export Development (1998-2002), Head of Public and Community Affairs (2002-2005) and Inspector General of the Department of Industry (2005-2007).

- Member 3

He is an Indonesian citizen. He was born in 1959. He has become a Member of the audit committee since 2009. He concurrently serves as Assistant to Director of HRD, PT Krakatau Steel (Persero). He obtained his Master's degree from Magister of Management at *Universitas Indonusa Esa Unggul* (UIEU) Jakarta in 1979.

- Member 4

He is an Indonesian citizen. He was born in 1960. He has become a member of the audit committee since 2010. Previously, President Director of Sarana

Jakarta Ventura (Bahana Group) (2007-2009). He obtained his Bachelor's degree in Accounting from the Faculty of Economics, *Universitas Padjadjaran* in 1985.

All members of the audit committee must have complied with criteria of independency, professional experience and integrity as required by prevailing rules and regulations. Moreover, the audit committee meeting is held at least once a month. The audit committee has held a total of 12 (twelve) meetings during 2010. The Company's audit committee meeting attendance record is showed on Table 3.3.

**Table 3.3 Company Audit Committee Meeting Attendance Record**

<b>Audit Committee Member</b>	<b>Attendance</b>
Chairman/Member 1	11
Member 2 *	1
Member 3	12
Member 4	12
*Member 2 cannot attend and has given his approval of all meeting materials prior to the meetings and meeting results were acknowledged by him	

Source: PT XYZ, 2010

## **CHAPTER 4 ANALYSIS AND DISCUSSION**

PT XYZ is a public company who has vision to become an integrated and the best tinplate company in AFTA (ASEAN Free Trade Area) region in 2013. Furthermore, the Company also has another vision to become an excellent steel packaging company in AFTA region in 2010. In the effort for achieving those visions, the cooperation and support from every company's organs involved and the environment surrounding the company are needed. For that reason, it is important for Company to implement a Good Corporate Governance practices by each organ of the Company. By implementing the best practices of Good Corporate Governance, it is expected to facilitate optimum management of any risks faced by businesses.

In order to find out the implementation of the corporate governance mechanism in each Company's organ, checklist is prepared and then is filled based on data and information obtained from the observation through attending Company's Annual General Meeting of Shareholders, the Company's annual report, and from other supporting document owned by the Company. Furthermore, in order to know how far PT XYZ has implemented the principles of Good Corporate Governance and to identify the level of awareness of company's management regarding the principles of Good Corporate Governance, then questionnaire is distributed to the board of commissioners, the audit committee and the board of directors.

### **4.1 Checklist of Corporate Governance Structure Mechanism**

Checklist is designed to identify and evaluate the quality of corporate governance in PT XYZ. Assessment results obtained through this checklist will be used to complement the analysis of the implementation of Good Corporate Governance principles in the Company.

This checklist consists of 4 (four) parts as follows:

1. General Meeting of Shareholders

The part is providing an assessment of the effectiveness of the fulfillment of shareholders rights by the Company, especially through the Annual General Meeting of Shareholders.

2. Board of Commissioners

This part is divided into four categories which each of it are reflecting the characteristics of the board of commissioners in the practice of corporate governance such as independence, activity, number of members and competence.

3. Audit Committee

This part, divided into four categories, each reflects the characteristics of the audit committee in the practice of corporate governance such as independence, activity, number of members and competence.

4. Board of Directors

This part of checklist is divided into two categories, such as the activities and competence of board of directors in carrying out their duties and their responsibilities to direct and manage the Company.

The checklist was developed with referring to various sources which is then modified according to the literature that supports this research. Some questions used in the checklist were taken from the corporate governance Self Assessment Checklist developed by the Forum for Corporate Governance in Indonesia (FCGI), from the questionnaire developed by the *Komite Nasional Kebijaksanaan Corporate Governance (KNKG)* and from Checklist *Penilaian Efektifitas Dewan Komisaris dan Komite Audit* by Hermawan (2009).

Moreover some of section more developed by the authors based on the relevant literature. This checklist will be answered based on the information stated from the Company's annual report and also based on the information gathered from related parties which involved with Company's organ. All the checklists and its answers can be viewed in Appendix 1, Appendix 2, Appendix 3 and Appendix 4 which are attached at the last part of this research.

#### 4.2 Distribution of Questionnaire and Interview

The questionnaires are developed to get the information about the implementation of corporate governance as well as the understanding of the Good Corporate Governance principles by the board of commissioners, the audit committee and board of directors of PT XYZ. This questionnaire is also developed in order to know opinion from each member of Company's organ regarding the current implementation of corporate governance mechanism by Company's organ in which that member is hold their position. Additionally, interviews are also conducted on persons from PT XYZ in order to obtain more in-depth qualitative information for completion of the results obtained from checklists and questionnaires.

This questionnaire is divided into three types of questionnaire, that is according to the Company's organ-be assessed, namely to the board of commissioners, the audit committee and also the board of directors. All three types of questionnaires were formulated by considering the laws and regulations regarding the implementation of Good Corporate Governance as follows:

- a. Indonesian Company Law or *Undang-Undang tentang Perseroan Terbatas (UUPT)* Number 40 year 2007.
- b. Capital Market Law issued by the Bapepam-LK.
- c. Indonesia's Code of Good Corporate Governance composed by *Komite Nasional Kebijakan Governance (KNKG)* in 2006.

Each type of questionnaire consists of three parts, the first part relates to the composition of company organs. The second part relates to the ability, competence and integrity of these company organs. Finally in the third section, the question raised about the activities of each company organs. All the questionnaires and its answers can be found in Appendix 5, Appendix 6 and Appendix 7 which are attached at the end of this research.

The compositions of the respondents who returned and answered the questionnaire and its response rate are as shown in Table 4.1.

**Table 4.1 Respondent Record**

<b>Respondent Target</b>	<b>Respondent</b>	<b>Target Respondent</b>	<b>Response Rate</b>
Board of Commissioners	5	6	83.33%
Board of Directors	4	5	80%
Audit Committee	4	4	100%

### **4.3 Analysis of the Good Corporate Governance Implementation and Effectiveness**

#### **4.3.1 General Meeting of Shareholders**

The observation of General Meeting of Shareholders is done by attending the Annual General Meeting of Shareholders, which is then followed by the Annual General Meeting Extraordinary Shareholders, on March 30, 2011. This Annual General Meeting of Shareholders is the second Annual General Meeting of Shareholders after the company went public. The meeting was chaired by a member of the commissioners who are appointed by the board of commissioners. The meeting was held with the Indonesian language and for the commissioners who are Japanese and do not understand the Indonesian language, however translator was provided for them.

The Annual General Meeting of Shareholders has the following agenda:

- a. Giving approval the Company's annual report 2010 including the Company's activity report, report control by board of commissioners, and approval of financial statements of the Company which ended on December 31, 2010.
- b. The determination net income fiscal year 2010.
- c. The appointment of public accountant firm for auditing financial statements for the next fiscal year that is year of 2011.
- d. The determination and endorsed *tantiem*, salaries, honorarium and other allowances for members of the board of commissioners and directors for fiscal year 2011.

Meanwhile, the agenda of the General Meeting of Extraordinary Shareholders are as follows:

- a. Approval of changes to the Articles of Association.
- b. Delegation of authority to the board of commissioners for necessary actions related to additional capital injection in conjunction with the MESOP (Management and Employee Stock Option Plan) program which has been approved by General Meeting of Shareholders.
- c. Report on the results of the Initial Public Offering (IPO).
- d. Change of Company's board of management.

The result of the observation through the Annual General Meeting of Shareholders is shown in Table 4.2.

**Table 4.2 Annual General Meeting of Shareholders**

<b>Checklist</b>		
<b>Question No.</b>	<b>Description</b>	<b>Answer Based on Observation</b>
1	Is the annual meeting of shareholders conducted within 6 months after the Company's financial year end?	Yes
2	Are the shareholders given at least 28 days notice of the annual shareholders' meeting?	Yes
3	Is there adequate time given during the annual shareholders' meeting for shareholders to ask questions?	Yes
4	Does the annual meeting of shareholders approve the annual report?	Yes
5	Does the annual meeting of shareholders endorse financial statement?	Yes
6	Does the annual meeting of shareholders decide the appointment of the BOC and BOD?	Yes
7	Does the annual meeting of shareholders evaluate of BOC and BOD performance?	Yes
8	Does the annual meeting of shareholders endorse compensation of BOD and BOC?	Yes
9	Does the annual meeting of shareholders appoint of external auditor?	Yes

From Table 4.2, the detail explanations about decisions which made by General Meeting of Shareholders were as follows:

1. The Annual General Meeting of Shareholders was held less than 6 months after the fiscal year end. It was held on March 2011, which was 3 (three) months after the fiscal year end on December 2010. It is in line with *Undang-Undang tentang Perseroan Terbatas (UUPT)* year 2007 article 61 paragraph (1).
2. All the shareholders of PT XYZ are given 28 days notice of the Annual General Meeting of Shareholders. The notice for a General Meeting of Shareholders includes information regarding the agenda, date, time and venue of the General Meeting of Shareholders. Furthermore, the Annual General Meeting of Shareholders invitation and Company financial statement has been published in 2 (two) Indonesian newspapers namely *Bisnis Indonesia* (page f3) and *Investor's Daily* (page 15) published on 15 March 2011, ie 15 days before the Annual General Meeting of Shareholders. It indicates there is adequate opportunity for shareholders to receive and review the financial reports before the Annual General Meeting of Shareholders. It also indicates Company's efforts to provide adequate information, accurate and on time information to their shareholders and other stakeholders as well as to comply with laws and regulations.
3. For each meeting agenda, the shareholders were given the opportunity to actively participate through question and answer session. It is also in line with Articles of Association article 11 paragraph (6). However, the shareholders' present at that General Meeting of Shareholders are appeared to be not actively assessing or questioning the Company performance report.
4. The General Meeting of Shareholders approved the Company's annual report 2010.
5. Endorsed the financial statements of the Company for the year ended on December 31, 2009 as have been audited by the public accountant firm, with an unqualified opinion. Moreover, the Company financial report along with the analysis of the Company's management is posted on the website of the Company so that it can be easily accessed by the shareholders and



stakeholders. This reflects the practice of transparency principle of the practice of Good Corporate Governance by the Company.

6. Accepted the resignation of the board of commissioner members and appointed the Executive Vice President Director and new members of the board of commissioners. However, there are no explicit criteria of board of commissioners and directors in the selection process of the board of commissioners and directors.
7. It is also approved the report on supervisory duties as conducted by the board of commissioners and also for the fiscal year 2010. It means that the General Meeting of Shareholders decided the evaluation of board of commissioners.
8. Directors, together with the commissioner, proposed the determination of *tantiem* (bonuses) for the board of commissioners and directors and also the honorarium of the board of commissioners, with performance-based, to be decided and determined at the General Meeting of Shareholders. In addition, granted authority upon the board of commissioners to determine the salaries and benefits provided for members of the board of directors for the year 2010.
9. Approved to appoint a public accountant firm to perform an audit on the Company's financial statements for the fiscal year 2011 and to grant authority to board of directors to appoint the replacement of that public accountant firm if the public accountant firm appointed based on rules and regulations of capital market cannot carry out its tasks and to grant authority upon the board of commissioners to determine terms and conditions for such appointment.

Based on observation, it can be concluded that PT XYZ already ensures that timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, ownership and governance of the company. It is also demonstrates Company's compliance with laws and regulations which reflects the implementation of Good Corporate Governance principles regarding the fulfillment of the rights and obligations of shareholders through the Annual General Meeting of Shareholders.

Moreover, the Company established a Public Disclosure of 2010 on August 9, 2010 whereby the Company presents financial achievements during the first half of 2010 and projections for the next quarter. The meeting was attended

by the shareholders, potential investors, analysts and media. It reinforces its continuing efforts in implementing the principles of transparency to the shareholders and other stakeholders.

However, based on observations of the General Meeting of Shareholders, there are several things that need considered because it may become obstacles to an optimal implementation the principles of Good Corporate Governance. First, regarding the shareholders' present at that General Meeting of Shareholders that are appeared to be not actively assessing or questioning the Company's performance report. Nevertheless, it might happen since the board of commissioners had been done the evaluation without having to wait for the Annual the General Meeting of Shareholders. Second, there is no explicit information mentioned about selection process of the independent commissioners. It also shows the Company has not effectively prevented the majority of shareholders from diluting the minority shareholders' value and interest.

#### **4.3.2 Board of Commissioners**

PT XYZ has a corporate governance structure that adopted Two-Tier Board, which the position and function between the board of commissioners and board of directors is separated. In 2010, the improvement of corporate governance practices was demonstrated by introducing a clear separation of functions through the establishment of Board of Commissioners and Directors Charter. These charters are then used as a set of guidelines to complement the Good Corporate Governance guidelines, codes of conduct and the Audit Committee Charter which has been established and implemented previously.

However, the establishment of the Board of Commissioners Charter does not immediately ensure that oversight process by the board of commissioners is working effectively. Therefore, it should be observed also the characteristics possessed by the board of commissioners. The characteristic of the board of commissioners covers the independence, size, composition, competence and the activities of the board of commissioners.

The next analysis about board of commissioners characteristics will be based on the result of the checklist which is answered based on information

gathered from Company's annual report and other document about Good Corporate Governance implementation in PT XYZ, especially which is implemented by the board of commissioners. Moreover, some of the findings will be compared with the board of commissioners' opinion stated on the questionnaire which has been distributed to the board of commissioners.

The board of commissioners of PT XYZ consists of a President Commissioner, 3 (three) commissioners and 2 (two) independent commissioners. The President Commissioners and 1 (one) commissioner are Japanese citizens. Meanwhile, the rest of them including the two independent commissioners are Indonesian citizen.

#### 4.3.2.1 Board of Commissioners Independence

Based on the result of checklist regarding board of commissioners' independence characteristics, then the information is summarized in Table 4.3.

**Table 4.3 BOC Independence**

<b>Checklist</b>		
<b>Question No.</b>	<b>Description</b>	<b>Answer Based on Observation</b>
1	Among board of commissioners, how many are independent commissioners?	33.33%
2	How many board of commissioners' member are employees of shareholders or affiliated companies which owned by shareholders of PT XYZ?	66.67%
3	Is the Chairman an independent commissioner?	No
4	Does the Company state the definition of independence in its annual report?	No
5	Does the board of commissioners establish nomination and remuneration committees?	No
6	What is the average years the board of commissioners' tenure?	1.67 years

Based on Table 4.3, it can be concluded that:

1. The proportion of independent commissioners, 33% of board of commissioner members, has met the rules set by IDX and Bapepam-LK which stated that at least 30% of the board of commissioners is independent commissioners. In addition, all the commissioners, who fill out questionnaire, stated that the current size of board of commissioner is accommodates the implementation of an independence of its supervisory and monitoring function independently. Moreover, all independent commissioners do not have a business relationship or family relationship with shareholders, members of the board of directors, as well as the other members of the board of commissioners and also do not have a relationship the Company. It is also in line with the Articles of Association and the Company's annual report 2011.
2. The proportion of board of commissioner members are employees of shareholders or affiliated companies which owned by shareholders of PT XYZ among the overall number of board of commissioner members is around 66.67%. There are 4 (four) out of 6 (six) members, of the total member of the board of commissioners, are served at the shareholders' company or the affiliated company of PT XYZ.
3. The chairman of board of commissioner, or so called as President Commissioner, is not an independent commissioners.
4. There is no clear statement and explanation regarding independence definition for independent commissioners at annual report for the year 2011 according to the definition established by the IDX and Bapepam-LK. However, the statement and explanation regarding independence definition for independent commissioners are clearly stated on Company's Articles of Association.
5. Board of commissioners has not established the nomination and remuneration committee.
6. The average tenure of board of commissioners is 1.67 years. Moreover, the board of commissioners members' tenure is varying from 1 (one) to 3 (three) years. There is no certain regulation which states about the maximum or

minimum of the board of commissioners tenure, but with a shorter average tenure of the board of commissioners, then the monitoring role should be more effective and independent since the management will not be easily influence the board of commissioners' opinion in making decisions.

Based on the independence characteristics of board of commissioners which have been mentioned above, it can be concluded Company has met the current law and regulation about the existence of independent commissioners on their board of commissioners. It shows the Company's effort in maintaining the independence of the board of commissioners' supervisory and monitoring function over the Company. It also shows that the Company has implemented the independence and responsibility principles of Good Corporate Governance in the same times. However, there are still some of factors need to be considered by the Company since it reduces the independence of board of commissioners and then may lead to ineffective monitoring role by the board of commissioners. Some of those factors explained as follows:

- The member of board of commissioners is proposed by the majority shareholders and there is no transparency on the process of board of commissioners' selection. There is no explicit fit and proper test in selecting the board of commissioners. This may reduce the accountability of the board of commissioner performance in discharging its responsibilities.
- Board of commissioners has not established the nomination and remuneration committee. With the establishment the nomination and remuneration committee, it is expected the appointment of the board of commissioners and the board of directors will be conducted with more independent and professional. Furthermore, it is also expected the remuneration will be more appropriate and more effective in increasing board of commissioners and directors performances.
- The proportion of board of commissioner members who served at shareholders' Company or at the affiliated Company of PT XYZ is around 66.67% of total board of commissioner members. It may provide greater expertise by gaining experience with other board of commissioners' duties. However, it can also reduce the effectiveness of the monitoring role of the

board of commissioners because those members will have tendencies to act on behalf of the interests of shareholders' Company where each of them work for and the potential conflict of interest does exist in doing the monitoring function. Moreover, with their involvement on other companies than PT XYZ, then board of commissioners monitoring function can be less optimal because of the limited time of each member and higher level of their busyness. It also may either provide less oversight and having less time to be involved in board decisions. It makes the performance of the board of commissioners may not be as optimal as if the commissioners are only served on PT XYZ.

#### 4.3.2.2 Board of Commissioners Activities

The result of checklist regarding board of commissioners' activities characteristics is summarized in Table 4.4.

**Table 4.4 BOC Activities**

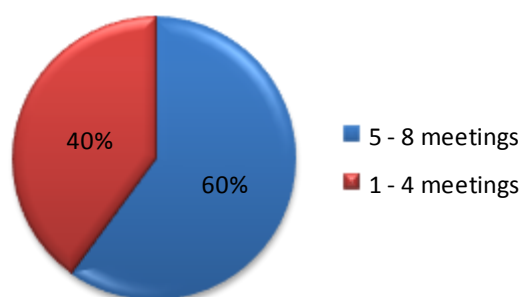
<b>Checklist</b>		
<b>Question No.</b>	<b>Description</b>	<b>Answer Based on Observation</b>
7	Have the Company establish Board of Commissioners Charter?	Yes
8	How many internal meetings were held during the year?	1 meeting
9	How is attendance performance of the member of board of commissioners in their internal meeting during the year?	100%
10	How many meetings with board of directors were held during the year?	5 times
11	How is attendance performance of the member of board of commissioners on joint meeting with board of directors during a year?	83.33%
12	How many meetings with audit committee were held during the year?	4 meetings
13	How is attendance performance of the member of board of commissioners on joint meeting with board of directors during a year?	4 meetings

**Table 4.4 BOC Activities (continued)**

Checklist		
Question No.	Description	Answer Based on Observation
14	Does the board of commissioners present an accountability report regarding their monitoring and evaluation over the board of directors' performance in running the Company?	Yes
15	Does the board of commissioners conduct annual performance assessment of the board of directors?	Yes
16	Does the board of commissioners conduct assessment of the business prospects prepared by the board of directors?	Yes

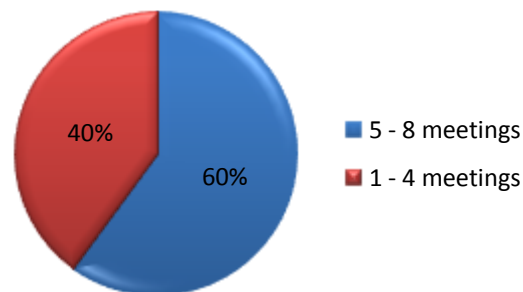
Based on Table 4.4, the information about board of commissioners activities are as follows:

1. The Company provided which clearly defined segregation of functions with the issuance of the Board of Commissioners Charter in 2010. It shows the implementation of accountability principle of Good Corporate Governance,
2. There were in total 1 (one) board of commissioners meeting in 2010 with 100% of overall board of commissioners attendance performance. Moreover, based on board of commissioners opinion regarding their internal meeting which are gathered from the questionnaire question no.13 in Appendix 5, it shows that:

**Figure 4.1 BOC's Opinion about BOC Internal Meeting Frequency**

Source: Author

- a. Figure 4.1 shows that 60% of the board of commissioners members stated that board of commissioners should hold 5 (five) to 8 (eight) times board of commissioners internal meeting in a year and only 40% of board of commissioners who stated that board of commissioners should hold 1 (one) to 4 (four) times internal meetings.
- b. The meeting agenda are:
- The current Company performance and its evaluation.
  - Evaluation on board of directors' work plan and accomplishment.
  - Company's business strategy planning and the execution in the future.
  - Update the current regulation.
3. There were in total 5 (five) joint board of commissioners and directors meeting in 2010 with 83.33% of overall board of commissioners attendance performance. Moreover, based on board of commissioners opinion regarding their joint meeting with directors which are gathered from the questionnaire question no.14 in Appendix 5, it can be inferred:



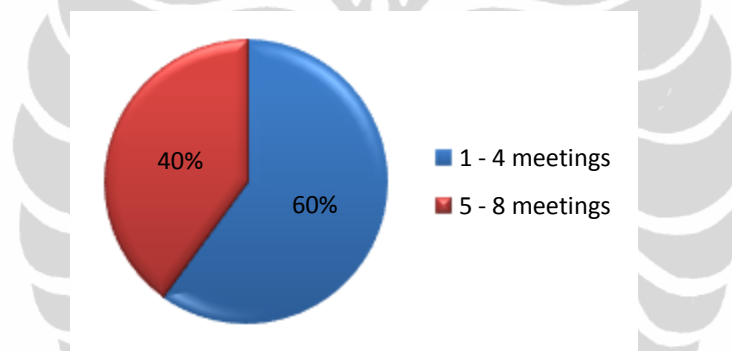
**Figure 4.2 BOC's Opinion about Joint BOC-BOD Meeting Frequency**

Source: Author

- a. Figure 4.2 shows that about 60% of the board of commissioners member stated that board of commissioners should hold 5 (five) to 8 (eight) meetings with board of directors a year and only 40% of board of commissioners who stated that joint board of commissioners and directors meeting should be held 1 (one) to 4 (four) times a year.



- b. The meeting agenda are:
- Reviewing the current Company performance accomplishment.
  - Reviewing the financial performance and annual budget.
  - Progress of realization of business performance compared with the actual business plan and the cause of have not achieving the plan.
  - Providing suggestion and recommendation to the board of directors.
  - Monitoring implementation and corporate performance.
4. There were 4 (four) joint board of commissioners and audit committee meeting in 2010. Moreover, based on board of commissioners opinion regarding their joint meeting with audit committee which are gathered from the questionnaire question no.15 in Appendix 5, it can be inferred:



**Figure 4.3 BOC's Opinion about Joint BOC-Audit Committee Meeting Frequency**

Source: Author

- a. Figure 4.3 shows that about 60% of the board of commissioners member stated that board of commissioners should hold 1 (one) to 4 (four) meetings with audit committee in a year and 40% of board of commissioners stated that joint board of commissioners and audit committee meeting should hold 5 (five) to 8 (eight) times.
- b. The meeting agenda are:
- Audit report on evaluation of the financial statements.
  - Audit report on evaluation regarding the effectiveness of internal audit by internal auditor.

- Audit committee work plan for the next year.
  - Follow-up on audit findings from internal auditor.
5. Based on the observation through the Annual General Meeting of the Shareholders, the board of commissioners presents an accountability report regarding their monitoring and evaluation over the board of directors' performance in running the Company.
  6. Based on the observation, the board of commissioners conducted annual performance assessment of the board of directors. The assessment is based on the Company performance.
  7. Based on the observation, board of commissioners conducted assessment of business prospects by the board of directors.

Moreover, based on the observation on Annual General Meeting of Shareholders on March 30, 2011:

1. The board of commissioners discussed issues on the formulation of remuneration for the board of directors, determined annual bonuses for employees and established the audit committee.
2. The board of commissioners reports the following information:
  - Assessment of board of directors' performance on managing the Company.
  - The prospects outlook of the Company which were prepared by the board of directors.
  - The committees under board of commissioners supervisions

Based on the above observation regarding board of commissioners' activities, the Company has applied Good Corporate Governance principles in their activities. Moreover, with the presence of Board of Commissioners Charter and Good Corporate Governance Manual, the segregation of duties between members of board of commissioners becomes clearer. It is also concluded that the board of commissioners has held regular meetings, both internal meetings as well as meetings with other parties such as directors or audit committee. It is also concluded that the board of commissioners provides suggestion and recommendation to the board of directors.

However, there is indication that the current board of commissioners' internal meeting frequency is still considered less by the board of commissioners. This can make the oversight duties by the Board of Commissioners less effective due to the time limitation of the Board of Commissioners members.

#### 4.3.2.3 Board of Commissioners Size

The description of the size of the Board of Commissioners of PT XYZ is presented in Table 4.5.

**Table 4.5 BOC Size**

<b>Checklist</b>		
<b>Question No.</b>	<b>Description</b>	<b>Answer Based on Observation</b>
17	What is the size of the board of commissioners?	6 members

Although the current size of board of commissioners already met the current regulation and accommodates board of commissioners in carrying out its oversight duties, it does not mean that the current board of commissioners carrying out their monitoring duties over Company effectively. However, the current board of commissioners' size will support the board of commissioners monitoring performance.

Furthermore, if the board of commissioners requires the establishment of other committees that can assist and improve the performance of the board of commissioners in their functions of monitoring over the Company, such as the risk management committee, nomination and remuneration committee, and compliance committee, then the number of independent commissioners surely will need to be added.

#### 4.3.2.4 Board of Commissioners Competence

The composition of the Board of Commissioners, which is seen from educational background perspectives, is presented in the following Table 4.6.

**Table 4.6 BOC Educational Background**

<b>Commissioners</b>	<b>Educational Background</b>
President Commissioner	Mechanical Engineering
Commissioner 1	Faculty of Law
Commissioner 2	Faculty of Letters
Independent Commissioner 1	Business Administration
Independent Commissioner 2	Mathematics

From Table 4.6, the current board of commissioners compositions comes from different and various educational background and working experiences. With such variety and diversity, board of commissioners will be able to conduct a more effective monitoring over the Company management by the board of directors. Moreover, the board of commissioners will be able to provide input and advice to the management from different aspects and points of view varying according the individual areas controlled by each commissioner.

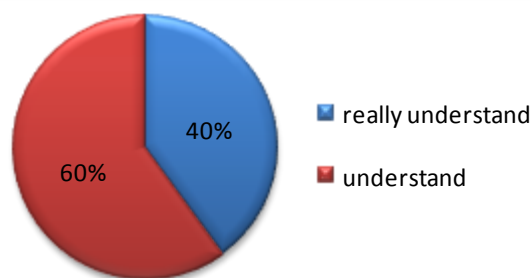
The following information based on the result of checklist regarding board of commissioners' competence characteristics summarized at Table 4.7 as follows.

**Table 4.7 BOC Competence**

<b>Checklist</b>		
<b>Question</b>	<b>Description</b>	<b>Answer Based on Observation</b>
18	Does the board of commissioner member have a sophisticated knowledge about accounting or finance?	20%
19	Does the board of commissioner member have a sufficient experience about the business (i.e. ever experienced as a member of the board of commissioners in any company including in PT XYZ or as CEO in other company)?	100%
20	Does the board of commissioner member have a sophisticated knowledge about the Company's business?	Yes
21	What is the average age of the member of board of commissioners?	54.45 years old

Based on Table 4.7, the following information about board of commissioners' competence are as follows:

1. Only one member is considered to have an educational background in accounting or finance, which is a bachelor degree in Business Administration. However, based on the result of the questionnaire in Appendix 5 question no.7, the results are shown in the following Figure 4.4.



**Figure 4.4 BOC's Statement about Knowledge in Accounting or Finance**

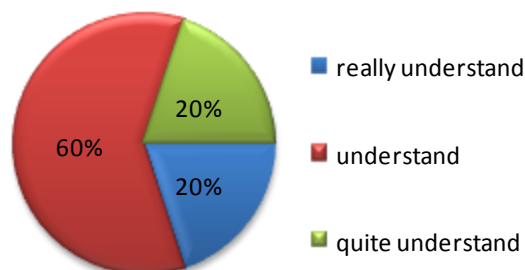
Source: Author

Figure 4.4 shows that 60% of the board of commissioners stated that they understand finance and the remaining 40% of the board of commissioners stated that they really understand finance. The board of commissioners which understands about finance or accounting, at least are expected to have understanding on Company financial reporting.

1. All members of the board of commissioners have experiences in the business world, either having experience as a commissioner of PT XYZ or other company as well as the directors or management of another company. Their experience as commissioner at PT XYZ or as director or manager at the current or other company will increase the competencies in monitoring role and will be able to detect the fraud.
2. Although Table 4.7 shows that only the President of Commissioners who has the educational background which is related with the core business of PT XYZ; that is engineering. However, by analyzing their working experience, almost all members of board of commissioners have sufficient experiences in a business which is related or similar with the core business of PT XYZ. So it can be concluded that in general the board of commissioner members has

sophisticated knowledge about the Company's business and operations based on their working experienced.

Furthermore, based on the result of the questionnaire in Appendix 5 question no.8, the results are shown in the following Figure 4.5.



**Figure 4.5 BOC's Statement about Understanding of Company Business**

Source: Author

Figure 4.4 shows that 20% of the board of commissioners stated really understands about Company business, 60% of the board of commissioners stated that they understand about Company business, and the remaining 20% stated that they quite understand about Company business. Then it can be concluded that the board of commissioners having a sufficient knowledge about Company business, the monitoring and evaluation of management performance will be effective.

- The average age of the six members of the board of commissioners of PT XYZ is 54.5 years and the detail age of each members of the board of commissioners is shown in Table 4.8.

**Table 4.8 BOC Age**

Commissioners	Age (years)
President Commissioner	50
Commissioner 1	52
Commissioner 2	59
Commissioner 3	56
Independent Commissioner 1	59
Independent Commissioner 2	51
<b>Average</b>	54.5

From Table 4.8, it is known that the ages of board of commissioners are ranged between 50 until 59 years old. Based on that, it can be concluded that the board of commissioner members has had adequate business experiences.

Furthermore, based on the information from the Company, as the rapid advances in technology and increased levels of competition in a global business, PT XYZ stresses on aligning competencies and capabilities of all board of commissioners and board of directors members to keep abreast of such development and changes. Following significant changes in the structure of the majority shareholder, then various improvement efforts intensively are introduced to the structure as well as processes at the level of management to promote technology and knowledge transfer. Simultaneously, each commissioner and the Director also participated actively in seminars, conferences and training programs organized by external parties in 2010. Some of these programs include:

- a. Indonesia Economic Plans: Challenge & Prospect.
- b. Partnership for Growth through Human Capital Empowerment to Face ACFTA.
- c. Exposure Draft (ED) on *Pernyataan Standar Akuntansi Keuangan (PSAK) 18 Revised 2010 on Accounting and Reporting on Retirement Benefits*.
- d. Managing Medical Expenses for Employees through Drug Cost Control Policies on Investment in Indonesia.

By analyzing the board of commissioners' competence which already mentioned above, such as their educational background, working experience, knowledge about business and the average age, then it can be concluded that the competence of current board of commissioners already accommodates the effectiveness of the monitoring role by the board of commissioners. Moreover, based on the board of commissioners' answers on the questionnaire in Appendix 5 question no. 11, it can be concluded that in general board of commissioners aware and comprehend about the implementation of the Good Corporate Governance principles in the Company.

However, based on the observation, there are no explicit criteria or a fit and proper test in selecting board of commissioners. This condition may reduce

the accountability and integrity of the board of commissioners. Based on the questionnaire result, training or seminars to improve the competence of the board of commissioners about Good Corporate Governance also has already been held by the Company. However, the efficiency and the effectiveness of the corporate governance practices of the board of commissioners has never been assessed yet.

### **4.3.3 Audit Committee**

The obligation of the Company to establish an audit committee as a public company is stated by Decree of the Jakarta Stock Number Kep-315/BEJ/06-2000 which states that all public companies should have an audit committee. At PT XYZ, The board of commissioners was established audit committees first based on the Board of Commissioners Decision No. 01/DK/ Kpts/2009 dated 4 February 2009 about the establishment of the audit committee in order to supports the board of commissioners in performing oversight on management of the Company by the board of directors. It indicates Company compliance to regulations and reflects the implementation of the principle of responsibility of Good Corporate Governance.

However, as the board of commissioners, the existence of the audit committee does not immediately ensure that oversight process by the audit committee is working effectively. Therefore, it should be observed also the characteristics possessed by the audit committee. The characteristic of the audit committee covers the independence, size, composition, competence and the activities of the audit committee.

The audit committee of PT XYZ consists of 4 (four) members. Moreover, 2 (two) of the 4 (four) audit committee members are independent commissioners and one of that independent commissioners are appointed as the Chairman of audit committee. All of the audit committee members are Indonesian citizens.

#### **4.3.3.1 Audit Committee Independence**

Based on the result of checklist regarding audit committee independence characteristic, then the following information obtained is summarized at Table 4.9 as follows.



**Table 4.9 Audit Committee Independence**

<b>Checklist</b>		
<b>Question No.</b>	<b>Description</b>	<b>Answer Based on Observation</b>
1	Is the Chairman of audit committee an independent commissioner?	Yes
2	Among the audit committee, how many are independent?	3 members

Based on Table 4.9, the following information about audit committee independence are as follows:

2. The Chairman of audit committee is independent commissioner. It is in line with Decision of Chairman of Bapepam-LK Kep-29/PM/2004 Rule No. I.X.I.5 regarding guidelines on establishment and working implementation of audit committee.
3. The audit committee consists of 2 (two) independent commissioners and both of them are from outside of the Company. Moreover, the rest of two audit committee member who are not an independent commissioner, one of them is from outside of the Company. It means that 3 out of 4 members of audit committee are from outside the Company. So it can be concluded that the audit committee already complies with Decision of Chairman of Bapepam-LK Kep-29/PM/2004 Rule No. I.X.I.5 wich stated that audit committee must consist of at least one independent commissioner and at least two other members are from outside the company.

Based on the above data and analysis of audit committee independence characteristics, Company has met the current law and regulation about the presence of independent commissioners and members from outside the Company on their audit committee. Furthermore, the size of audit committee members who are from outside the Company are already accommodates in performing audit committee duties. It shows that the Company has implemented the independence and responsibility principles of Good Corporate Governance in the same times.

#### 4.3.3.2 Audit Committee Activities

Based on the result of checklist regarding audit committee activities characteristics, then the information obtained is summarized at Table 4.10.

**Table 4.10 Audit Committee Activities**

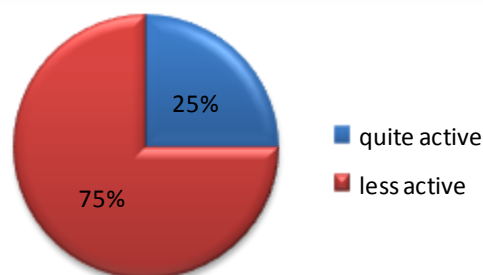
Checklist		
Question No.	Description	Answer Based on Observation
3	Have the Company establish audit committee Charter?	Yes
4	Does the audit committee evaluate the internal control?	Yes
5	Does the audit committee propose the auditor?	Yes
6	Does the audit committee review the financial report?	Yes
7	Does the audit committee evaluating legal compliance?	Yes
8	Does the audit committee prepare a complete audit report for disclosure?	No
9	How many meetings were held during the year?	12 meetings
10	What is attendance performance of the member of audit committee during the year?	75%
11	Does the audit committee report regularly to the board of commissioners?	Yes
12	Does the audit committee have regular meetings with the internal auditors?	Yes
13	Does the audit committee have regular meetings with the external auditors?	No

Based on Table 4.10, the detail explanation are as follows:

1. The Company has designed and established Audit Committee Charter. This charter is a written document which regulates the purpose, the establishment, the authority, roles and responsibilities of the audit committee as well as boundaries and working parameters with the board of commissioners, directors, external auditors, internal auditors and other related parties.
2. The audit committee had already evaluated the internal control of the Company. It is in line with the rules which stated by BEI and Bapepam-LK,

the audit committee of PT XYZ have to conduct evaluation of the Company internal control.

3. The Audit Committee has not already recommended and proposed external auditor to board of commissioners, which then to be proposed and approved to General Meeting of Shareholders. This also can be seen on the answers of the questionnaire for the audit committee question no. 24 in Appendix 6, the results are shown in the following Figure 4.6.

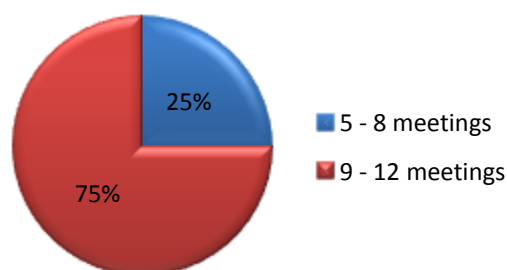


**Figure 4.6 Audit Committee's Opinion about the Audit Committee Involvement in the External Auditor Selection Process**

Source: Author

Figure 4.6 shows that 75% of the audit committee stated that the involvement of the audit committee is less active in the process of selecting the external auditor and 25% of the audit committee stated that the audit committee has quite active in proposing external auditor on external auditor selection process. It can be concluded that the audit committee has not been actively involved in the process of selecting the external auditor.

4. The audit committee had already evaluated and reviewing the Company financial statement. It is also showed at the annual report and also at the questionnaire result regarding audit committee their meeting agenda.
5. The audit committee had evaluating legal compliance.
6. The audit committee had prepared a complete audit committee report for disclosure at the Company's annual report.
7. There were in total 12 (twelve) audit committee meeting in 2010 with 75% of overall audit committee attendance performance. Moreover, based on the questionnaire in Appendix 6 question no.17, the results are shown in the following Figure 4.7.

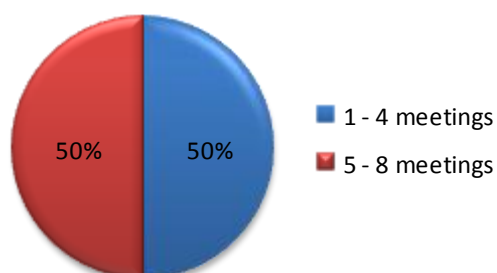


**Figure 4.7 Audit Committee's Opinion about Audit Committee Internal Meeting Frequency**

Source: Author

Based on Figure 4.7, it can be inferred that 25% of the audit committee member stated that audit committee should hold 5 (five) to 8 (eight) times audit committee internal meeting in a year and only 75% of audit committee who stated that audit committee internal meeting should hold 9 (nine) to 12 (twelve) times.

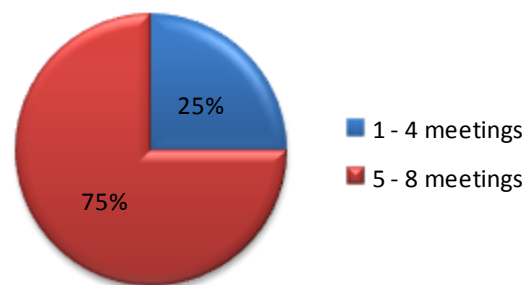
8. The audit committee report regularly to the board of commissioners, that is once in 3 (three) months. There were 4 (four) joint audit committee and board of commissioners meetings in 2010. However, from the information gathered from the questionnaire about audit committee opinion regarding their joint meeting with board of commissioners in Appendix 6 question no. 19, it can be inferred:



**Figure 4.8 Audit Committee's Opinion about Joint Audit Committee – BOC Meeting Frequency**

Source: Author

- a. Figure 4.8 shows that about 50% of the audit committee member stated that audit committee should hold 1 (one) to 4 (four) meetings with board of commissioners in a year and only 50% of audit committee who stated that audit committee should hold 5 (five) to 8 (eight) times meetings with board of commissioners in a year.
- b. The meeting agenda:
- The audit report of the audit committee.
  - The monitoring of the management company run by the board of directors.
  - The evaluation of effectiveness of audit.
  - The monitoring and evaluation for planning and execution of audit
  - The follow-up monitoring of audit results in order to assess the adequacy of the financial reporting process.
9. The audit committee held meetings with internal audit regularly, that is once a month. There were 12 (twelve) joint audit committee and internal audit meetings in 2010. However, from the information gathered from the questionnaire about audit committee opinion regarding their joint meeting with internal auditor in Appendix 6 question no. 20, it can be inferred:

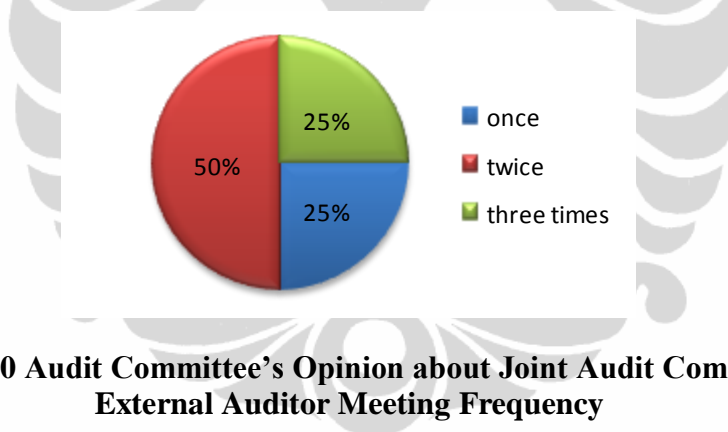


**Figure 4.9 Audit Committee's Opinion about Joint Audit Committee – Internal Auditor Meeting Frequency**

Source: Author

- a. Figure 4.9 shows that 25% of the audit committee member stated that audit committee should hold 1 (one) to 4 (four) meetings with internal auditor in a year and only 75% of audit committee who stated that audit committee should hold 5 (five) to 8 (eight) times meetings with internal auditor in a year.

- b. The meeting agenda:
- The supervision of the qualifications and independence of internal audit functions to enhance the performance and effectiveness of the internal audit function.
  - Evaluation and audit report by internal auditor on the Company's business activities.
  - Monitoring and evaluation of the implementation of follow-up by the Board on the findings internal auditor.
  - Audit and evaluation plan implementation.
  - Update the findings of internal auditors.
10. The audit committee does not have a regular meeting with the external auditor. However, from the information gathered from the questionnaire about audit committee opinion regarding their joint meeting with external auditor in Appendix 6 question no. 21, it can be inferred:



**Figure 4.10 Audit Committee's Opinion about Joint Audit Committee – External Auditor Meeting Frequency**

Source: Author

- a. Figure 4.10 shows that 25% of the audit committee members stated that the meeting with external auditor should be held once a year. The other 50% stated that the meeting should be held twice a year and the remaining, 25%, stated that the meeting should be held 3 (three) times in a year.
- b. The meeting agenda:
- The monitoring and providing advice/suggestions related to efforts to improve the quality of financial reports.

- Ensuring the effectiveness of internal control system that can reduce the chance occurrence of irrelevancy at the management.
- The monitoring and follow-up completion of external audit findings.

From all of the activities of the board of commissioners which have been mentioned above, it can be said that the principles of transparency, accountability, responsibility, independence, and fairness have been attached to the duties and responsibilities of the audit committee in implementing Good Corporate Governance. However, it is found that the audit committee is not actively involved in the external auditor selection process. The audit committee did not provide recommendations on the appointment of external auditor and public accountants firm to the board of commissioners to be submitted to the General Meeting of Shareholders. This indicates a lack of the audit committee comprehension upon their duties and it also indicates that the audit committee is still less competent in performing their duties.

In addition, based on interview with a member of the internal audit unit, it is known that they already perform scheduled audit, special / investigative audit, monitoring and completion of follow-up on audit findings during 2010, consultation on internal control as requested by the auditee, perform evaluation on the Company's internal control system based on Audit Committee Charter, completion of follow-up on findings of the external auditor and also preparation of the annual audit plan for 2011.

However, based on the result of the evaluation of the audit committee on the preparation of the annual audit program, management, implementation of internal audit and also the effectiveness of follow-up on audit results, it shows that audit committee have found issues regarding the internal audit unit and also risk management. Audit committee also suggests management and performance of the internal audit unit of PT XYZ and the risk management division still requires further improvement in the future.

Moreover, regarding the ineffectiveness of risk management division, this issues shows that the need of establishment of the risk management committee in helping board of commissioners oversight duty especially on risk management of the Company. By having risk management committee, the audit

committee can be more focus on supporting the board of commissioners in performing oversight duties on financial reporting by the Company and the risk management committee shall focus in overseeing the risk management division of the Company.

#### 4.3.3.3 Audit Committee Size

Based on the previous research by Dhaliwal et al. (2007), it can be concluded that the size of audit committee influence the governance strength of the audit committee. Furthermore, the appropriate size of the audit committee may enhance the effectiveness of audit committee function and also reduces the possibility of free riders. The description of the size of the audit committee of PT XYZ is presented in Table 4.11.

**Table 4.11 Audit Committee Size**

<b>Checklist</b>		
<b>Question No.</b>	<b>Description</b>	<b>Answer Based on Observation</b>
13	What is the size of the audit committee?	4 members

Based on Table 4.11, it shows that the size of the current audit committee at PT XYZ is 4 (four) members. According to regulation established by Indonesia Stock Exchange and Bapepam-LK, the minimum size of audit committee of a company is 3 (three) members. For that, the audit committee size of PT XYZ already met those requirements. In addition, based on the questionnaire, that is question no. 1 in Appendix 6, all the audit committee members stated that the current audit committee size already accommodates for carrying out the functions of the audit committee. It can be concluded that the current size of audit committee current audit committee size already accommodates for carrying out the audit committee duties.



#### 4.3.3.4 Audit Committee Competence

Based on the Company 2010 annual report, then the composition of the audit committee, which is seen from educational background perspectives, is presented in the following Table 4.12.

**Table 4.12 Audit Committee Educational Background**

<b>Audit Committee</b>	<b>Educational Background</b>
Chairman	Mathematics
Member 1	Business Administration
Member 2	Management
Member 3	Accounting

As shown on the Table 4.12, only one of the audit committee members has a bachelor degree in accounting. In addition, one member holds a Bachelor degree in Business Administration and another one member holds a Magister of Management degree and are considered had basic knowledge of finance or accounting. Furthermore, based on the result of checklist regarding audit committee competence characteristics, then the following information obtained is summarized at Table 4.13 as follows.

**Table 4.13 Audit Committee Competence**

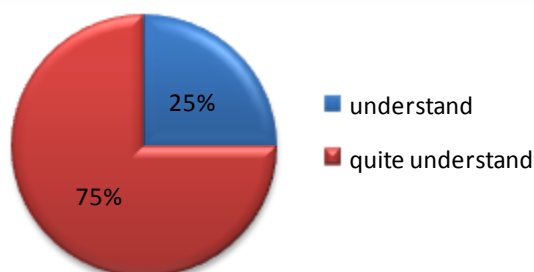
<b>Checklist</b>		
<b>Question No.</b>	<b>Description</b>	<b>Answer Based on Observation</b>
15	Does the audit committee have an accounting background?	Yes
16	What is the average age of the member of audit committee?	53.75

Based on Table 4.13, the following information about audit committee competence are as follows:

1. One member has an educational background in accounting. This is in accordance with the provisions of Bapepam-LK which states that at least one

member of the audit committee must have accounting or financial background.

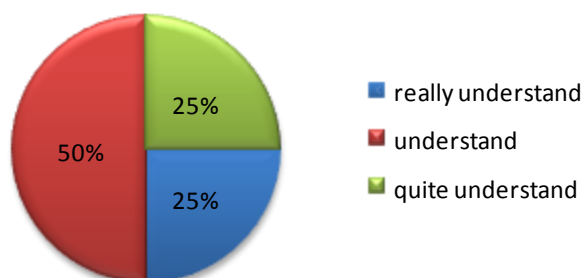
However, based on the result of the questionnaire in Appendix 6 question no. 7 and no.8, it shows that:



**Figure 4.11 Audit Committee's Statement about Understanding of Finance**

Source: Author

- a. 75% of the audit committee stated that they quite understand finance and 25% of the audit committee stated that they understand finance.



**Figure 4.12 Audit Committee's Statement about Understanding of Accounting and Auditing**

Source: Author

- b. 25% of the audit committee stated that they quite understand accounting and auditing, 50% stated that they understand accounting and auditing. Meanwhile, 25% of the audit committee stated that they really understand about accounting and auditing.

The audit committee members which understand about finance or accounting are expected to have understanding on Company financial reporting.

2. The average age of the six members of the audit committee of PT XYZ is 53.75 years and the detail age of each members of the Audit Committee is shown in Table 4.14.

**Table 4.14 Audit Committee Age**

<b>Audit Committee</b>	<b>Age (years)</b>
Chairman	51
Member 1	59
Member 2	53
Member 3	52
<b>Average</b>	53.75

From Table 4.14, it is known that the ages of audit committee members are ranged between 51 until 59 years old. So it can be concluded that, similar with board of commissioners, the audit committee members has had adequate business experiences.

By analyzing the audit committee competence which already mentioned above, such as their educational background, their working experience, and their knowledge about business and the average age, then it can be concluded that the competence of current audit committee already accommodates the effectiveness of the monitoring role of Company financial reporting. Moreover, based on the audit committee members' answers on the questionnaire in Appendix 6 question no. 14, it can be concluded that in general audit committee are already aware and comprehend about the implementation of the Good Corporate Governance principles in the Company.

Moreover, based on the questionnaire result, training or seminars to improve the competence of the audit committee about Good Corporate Governance also has already been held by the Company. However, similar with board of commissioners, the efficiency and the effectiveness of the corporate governance practices of the audit committee has never been assessed yet.

#### 4.3.4 Internal Auditor

The internal audit unit at PT XYZ is called as *Satuan Pengawasan Intern* (SPI). This unit, as an internal auditor, is responsible for providing assurance and consultation, independent and objective, which is designed to create added value and improve the operational performance of the Company. Furthermore, the Company has established the Internal Audit Unit Charter which serves as manual and guidelines for performance of duties of internal audit. As stipulated in the Internal Audit Charter which has been endorsed by the President Commissioner and President Director, the functions of internal audit covers the following activities:

1. Operational audit
2. Commercial audit
3. Special or investigate audit
4. Consultation in the form of facilitation and observation of particular operational activities.

Throughout 2010, internal audit unit undertook the following activities:

- a. Performed scheduled audit 2010  
Based on Annual Audit Plan of PT XYZ's SPI, SPI were conducted review of 12 audit objects throughout 2010. Of these 12 audit objects, a total of 6 Audit Reports (LHA) was prepared and submitted to the President Director and audit committee.
- b. Performing special / investigative audit  
During 2010, SPI has conducted 8 special / investigative audits and produced 8 Audit Reports (LHA).
- c. Monitoring and completion of follow-up on audit Findings  
During 2010, SPI carried out monitoring and completed follow-up on Audit Report 2009 which remained in open status as well as monitoring and completed Audit Report 2010.
- d. Achieved consultation on internal control as requested by the auditee
- e. Based on the Internal Audit Charter, SPI makes evaluation on the Company's internal control system
- f. Completion of Follow-up on Findings of the External Auditor

SPI has concluded follow-up on findings of audit performed by BPK in 2008 and Findings of the independent auditor for compliance with the law and compliance with internal control for the year ending on 31 December 2009.

g. Preparation of the Annual Audit Plan for 2011

SPI has prepared its Annual Audit Plan 2011, which consists of audit plan, work programs and also education program for SPI personnel. SPI prepares its annual audit plan on the basis of risk indicators as determined in the Audit Universe of Internal Audit. Internal Audit Program emphasizes high and extreme risks faced in the operations of the Company's core business.

Control system is tested to ensure that high and extreme risks have been mitigated accurately, and recommendations made include necessary corrective measures. Internal Audit also follows up on corrective actions which were approved for implementation to ensure that these measures have been thoroughly applied.

#### **4.3.5 External Auditor**

The Annual General Meeting of Shareholders which was held previously on March 24, 2010 decided to appoint Public Accountant Purwantono, Sarwoko and Sandjaja (a member of Ernst & Young Global) as the external auditor to perform an audit on PT XYZ's books and financial statements for the fiscal year 2010. In May 2010 the Public Accountant Firm changed its name into Purwantono, Suherman and Surja. The Public Accountant Firm Purwantono, Sarwoko and Sandjaja has performed an audit of PT XYZ's financial statements for 4 (four) consecutive fiscal years, whereas Roy Iman Wirahardja has signed off on PT XYZ's audited financial report for a total of 2 (two) consecutive years, which are year 2009 and 2010.

With the sale of the Company's shares to the public in the Initial Public Offering and listing of PT XYZ in the Indonesia Stock Exchange on December 14, 2009, then the audit was conducted by Public Accountant Doli, Bambang, Sudarmadji & Dadang in order to meet Bapepam-LK Regulation No.VIII.G.12, Attachment to Decree of Bapepam Chairman No. Kep-17/PM/2004 dated 13 April

2004 concerning Guidelines for Audit by Accountant for Subscription and Allocation of Securities or Distribution of Bonus Shares.

Furthermore, in 2010 Public Accountant Firm Purwanto, Sarwoko & Sandjaja issued Report of Independent Auditor for compliance with rules and regulations as well as compliance with internal control for the year ended 31 December 2010 in conjunction with fulfilment of compliance with laws and regulations and internal control. Meanwhile, the Public Accountant firm Purwanto, Suherman and Surja, as the current independent external auditor, has audited the balance sheets of PT XYZ as of December 31, 2010 and 2009, and the related statements of income, changes in shareholder's equity and cash flows for the years then ended. This public accountant conducted their audits in accordance with auditing standards established by the Indonesian Institute of Certified Public Accountants. Those standards require that they plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

#### **4.3.6 Board of Directors**

The composition of the board of directors in PT XYZ at the end of 2010 consists of a President Director, an Executive Vice President Director, a Finance Director, a Commercial Director and an Operational Director. Members of the board of directors are appointed and terminated by the General Meeting of Shareholders. Moreover, the Executive Vice President Director is a Japanese citizen. Meanwhile, the rest of the directors are Indonesian citizens.

##### **4.3.6.1 Board of Directors Activities**

Based on the result of checklist regarding board of director's activities characteristics, then the information obtained is summarized at Table 4.15.

**Table 4.15 BOD Activities**

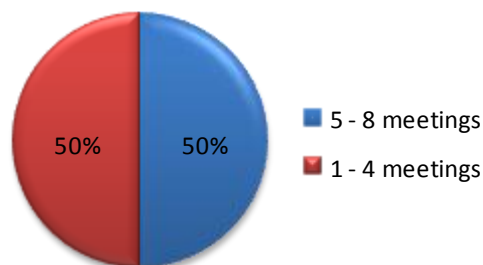
<b>Checklist</b>		
<b>Question No.</b>	<b>Description</b>	<b>Answer Based on Observation</b>
1	Have the Company establish Board of Directors Charter?	Yes
2	How many meetings were held during the year?	39 meetings
3	How is attendance performance of the member of board of directors during the year?	97.95%
4	How many meetings with board of commissioners were held during the year?	5 meetings
5	How is attendance performance of the member of board of directors on joint meeting with board of commissioners during a year?	98%
6	Does the board of directors make a list of shareholders?	Yes
7	Does the board of directors formulate vision, mission and values of the Company?	Yes
8	Does the board of directors prepare a report on its management accountability which contains a financial report, report on company's activities and report on the implementation of GCG?	Yes

Based on Table 4.15, the detail explanation are as follows:

1. The Company has designed a Board of Directors Charter. This charter is a written document which regulates the purpose, the establishment, the authority, roles and responsibilities of the board of directors as well as boundaries and working parameters with the board of commissioners, audit committee, external auditors, internal auditors and other related parties.
2. There were in total 39 (thirty nine) board of directors internal meeting in 2010 with 97.95% of overall board of directors attendance performance. It means that the board of directors held 3 or 4 times internal meetings in a month. This frequency is already felt sufficient according to board of directors answer in questionnaire question no. 9 as showed at Appendix 7, that stated that all of

board of directors stated that, in a month, the internal meeting should be held 3 or 4 times.

3. There were in total 5 (five) joint board of directors and commissioners meeting in 2010 with 83.33% of overall board of directors attendance performance. Moreover, based on board of directors opinion regarding their joint meeting with board of commissioners which are gathered from the questionnaire questions no.10 in Appendix 7, it can be inferred:



**Figure 4.13 BOD's Opinion about BOD Internal Meeting Frequency**

Source: Author

- a. Figure 4.13 shows that 50% of the board of directors member stated that board of directors should hold 5 (five) to 8 (eight) times board of directors internal meeting in a year and only 50% of board of directors who stated that board of directors internal meeting should hold 1 (one) to 4 (four) times.
- b. The meeting agenda:
  - The Company work plan and target.
  - Company performance report and monitoring.
  - Company budget condition, issues that requiring board of commissioners decisions and suggestions.
  - All important issues regarding Company development progress.

Moreover, questionnaire questions no.10 in Appendix 7, 75% of the directors who answer the questionnaires stated that the Company performance evaluation related with business plan and targets are discussed very comprehensively at the meeting of the board of directors with the board of commissioners.



4. The board of directors had already made a list of shareholders.
5. The board of directors had already formulated vision, mission and values of the Company.
6. The board of directors prepares a report on its management accountability which contains a financial report, report on company's activities and report on the implementation of GCG.

Furthermore, based on observation on Annual General Meeting of Shareholders, it can be concluded that the board of directors reports to the shareholders of the Company as follows:

- a. Important events which occurred in 2010.
- b. Overview of company performance in 2010.
- c. Implementation of Good Corporate Governance (GCG).
- d. Corporate Social Responsibility (CSR) activities during 2010.
- e. Share performance.

#### 4.3.6.2 Board of Directors Size

The description of the size of the board of directors of PT XYZ is presented in Table 4.16.

**Table 4.16 BOD Size**

Checklist		
Question No.	Description	Answer Based on Observation
9	What is the size of the board of directors?	5 members

According to Table 4.16, it shows that the board of directors at PT XYZ consists of 5 (five) members. Moreover, based on the questionnaire, that is question no. 1 in Appendix 7, all the Directors who answered the question are agreed that the current size of the board of directors accommodate for carrying out their functions. Furthermore, based on studies ever conducted, the results of these studies have not provided a consensus regarding the relationship between the size of board of directors with the effectiveness of the board of directors.

#### 4.3.6.3 Board of Directors Competence

Based on the result of checklist regarding board of directors competence characteristic, then the following information obtained is summarized at Table 4.17 as follows.

**Table 4.17 BOD Competence**

Checklist		
Question No.	Description	Answer Based on Observation
10	What is the average age of the member of Board of Directors?	54.4 years old
11	Is there a training program for enhancing the competence of the Board of Directors on Good Corporate Governance?	Yes

Based on Table 4.17 and the result of the questionnaire, the following information about board of directors' competence is as follows:

1. The average age of the six members of the board of directors of PT XYZ is 54.4 years and the detail age of each members of the board of directors is shown in Table 4.18.

**Table 4.18 BOD Age**

Directors	Age (years)
President Directors	53
Executive Vice President Director	51
Finance Director	51
Commercial Director	58
Operational Director	59
<b>Average</b>	54.5

From Table 4.18, it is known that the age of board of directors ages ranged between 50 and 59 years old. Based on the results of previous studies, it can be concluded that background knowledge and experience of the board of directors will influence the effectiveness of the managing role of the board of

directors. Therefore, with an average age of 54.4 years, then the board of director members is expected to have more experience in business.

2. Training programs to improve the competence of the board of directors on Good Corporate Governance has already been held by the Company. Moreover, based on the information from the Company, board of director members are also participated actively in seminars, conferences and training programs organized by external parties in 2010. Some of these programs include:
  - a. Indonesia Economic Plans: Challenge & Prospect.
  - b. Partnership for Growth through Human Capital Empowerment to Face ACFTA.
  - c. Exposure Draft (ED) on *Pernyataan Standar Akuntansi Keuangan (PSAK) 18 Revised 2010 on Accounting and Reporting on Retirement Benefits*.
  - d. Managing Medical Expenses for Employees through Drug Cost Control Policies on Investment in Indonesia.

By analyzing the board of directors competence which already mentioned above, that is based on their educational background, their working experience, their knowledge about business and the average age, then it can be concluded that the competence of current board of directors already accommodate in performing their duties and responsibilities. In addition, the presence of a non-affiliated director in the board of directors shows the Company's compliance with the regulation set by the IDX.

However, based on the observation, it revealed that there are no explicit criteria, or fit and proper test, in selecting board of directors. This condition may reduce the accountability and integrity of the board of directors. Moreover, based on the board of directors' answers on the questionnaire in Appendix 7 question no. 7, it can be concluded that in general directors awareness, regarding the implementation of the Good Corporate Governance principles in the Company, is still low. Furthermore, based on the questionnaire result, training or seminars to improve the competence of the board of directors about Good Corporate Governance also has already been held by the Company. However, similar with

board of commissioners and audit committee, the efficiency and the effectiveness of the corporate governance practices of the board of directors has never been assessed yet.

#### **4.4 Obstacles in the Implementation of the Principles of Good Corporate Governance**

Based on the above analysis, it can be concluded that the company has been had a great commitment in the implementation of the principles of Good Corporate Governance. But apparently there are some obstacles to the implementation of Good Corporate Governance principles to be more optimally as follows:

- a. After the Company experienced Initial Public Offering, the Company must be ensured in meeting the interest of all of its shareholders and other stakeholders. However, the lack of transparency in the process of the selection the board of commissioners and directors. There are no explicit criteria regarding the selection process of board of commissioners and board of directors in PT XYZ. It can be concluded that the Company did not promote accountability and integrity of the candidate of board of commissioners and directors. It also shows the Company has not effectively prevented the majority of shareholders from diluting the minority shareholders' value and interest.
- b. With the Initial Public Offering, there was a change in the composition of the shareholders such that a Japan Consortium became the majority shareholder. With multi-dimensional reforms occurring in the Company, the impacts were undoubtedly tremendous for each Company organs. Necessary alignment of the best standards of corporate governance in accordance with the culture that has been exemplified by the new holding company which originated from Japan.
- c. Risk management division stated that, together with every division, already identify, measure and determine the response of the Company's risk associated with the business process. However, based on audit committee findings, it revealed that the control of internal audit execution and follow up

audit are not yet effective, preparation of audit reports is relatively delayed and the method that would support effectiveness of risk management division has not prepared yet. This shows inefficiency on management and execution of internal audit, effectiveness of follow-up audit and also risk management of the Company.

- d. The audit committee already focused on ensuring the effectiveness of internal control system that can reduce the chance occurrence of irrelevancy in the management company. However, the audit committee is not actively involved in the selection process of external auditor. The audit committee did not provide recommendations on the appointment of external auditor and public accountants firm to the board of commissioners to be submitted to the General Meeting of Shareholders. This indicates a lack of the audit committee comprehension upon their duties and it also indicates that the audit committee is still less competent in performing their duties.
- e. With the presence of the independent commissioners, board of commissioner performance is expected being more independent. However, if the independent commissioners have a less knowledge about operation and business of the Company, since they are comes from outside PT XYZ, it will reduce the effectiveness of the oversight performance by the board of commissioners.
- f. Board of commissioners has not established the nomination and remuneration committee. With the establishment of the nomination and remuneration committee, it is expected the monitoring and supervision by board of commissioners over the board of directors performance in running the Company will be conducted with more independent and professional. This committee need to be established in order to formulate the selection criteria and nomination procedures for strategic positions in companies based on Good Corporate Governance principles, to assist the board of commissioners, and consulting with the board of directors in the selection of candidates for strategic positions in the Company, and to help in formulating the system of remuneration for directors is based on fairness and performance.

- g. Although Company's manuals, charters and organ that support the implementation of Good Corporate Governance principles has been established by the Company, but the efficiency and the effectiveness of the corporate governance practices in PT XYZ has never been assessed.



## **CHAPTER 5**

### **CONCLUSION AND RECOMMENDATION**

#### **5.1 Conclusion**

Based on the observation and analysis, it can be conclusion as follows:

- a. After the PT XYZ's Initial Public Offering (IPO) in December 2009 and became a public Company, then the Company must be ensured in meeting the interest of all of its shareholders and other stakeholders. Based on the analysis, PT XYZ as a public company has complied with regular reporting prescribed by relevant regulators, including Bapepam-LK and IDX. The Company shows its commitment to implement the existing principles of Good Corporate Governance by improving its corporate governance practices. The oversight and supervision function over the Company has been tightened by the presence of independent commissioner in the board of commissioners. The board of commissioners has also established an audit committee to focus more on the execution of duties. Furthermore, for effective management duties, the Company has provided clearly defined segregation of functions with the issuance of the Board of Commissioners and Directors Charter as a comprehensive set of guidelines that complement the GCG guidelines, code of conduct, and Audit Committee Charter previously implemented. It shows by the establishment of Company's manuals, charters, and organ that support the implementation of Good Corporate Governance principles.
- b. Board of commissioners and audit committee in general already comprehend the principles of Good Corporate Governance. However, based on the answer from the board of directors on the questionnaire, it indicates the lack of awareness and comprehension the board of directors of the principles of Good Corporate Governance. Furthermore, the efficiency and the effectiveness of the implementation of Good Corporate Governance principles in PT XYZ have never been assessed.

- c. Although Company's manuals, charters, and organ that support the implementation of Good Corporate Governance principles has been established by the Company, there are still some issues found:
- After the Company experienced IPO, the Company must ensure to meet the interest of all of its shareholders and other stakeholders. However, there is a lack of transparency in the process of the selection the board of commissioners. There are no explicit criteria regarding the selection process of board of commissioners and directors in PT XYZ. It can be concluded that the Company has not promote accountability and integrity of the candidate of the board of commissioners. It also shows the Company has not effectively prevented the majority of shareholders from diluting the minority shareholders' value and interest.
  - From a State-Owned Enterprise and then privatized by a Japan Consortium. With the change in the Company's controlling shareholder, multi-dimensional reforms occurring in the Company and greatly affecting each organ of the Company. Adopting a Japan culture also implicated a demanding culture transformation. Necessary alignment of the standards of corporate governance in accordance with the culture that has been exemplified by the new holding company from Japan and based on the world's best practices.
  - Based on audit committee findings, it is revealed that the control of internal audit execution and follow up audit are not effective yet, preparation of audit reports is relatively delayed, and the method that would support effectiveness of risk management division has not yet prepared. This shows inefficiency on management and execution of internal audit, effectiveness of follow-up audit, and also risk management of the Company.
  - The audit committee had not actively involved in the selection process of external auditor. It is known that the audit committee did not provide recommendations on the appointment of external auditor to the board of commissioners to be submitted to the General Meeting of Shareholders. Furthermore, it is shown that the audit committee already focused on



ensuring the effectiveness of internal control system that can reduce the chance occurrence of irrelevancy in the management company. However, audit committee have not monitor and evaluate the effectiveness of external auditors. It shows that the audit committee has not worked effectively.

- With the presence of the independent commissioners, board of commissioner performance is expected being more independent. However, if the independent commissioners have a less knowledge about operation and business of the Company, since they are comes from outside PT XYZ, it will reduce the effectiveness of the oversight performance by the board of commissioners.
- Board of commissioners had not established the nomination and remuneration committee. With the establishment of the nomination and remuneration committee, it is expected the monitoring and supervision by board of commissioners over the board of directors performance in running the Company will be conducted with more independent and professional. This committee need to be established in order to formulate the selection criteria and nomination procedures for strategic positions in companies based on Good Corporate Governance principles, to assist the board of commissioners, and consulting with the board of directors in the selection of candidates for strategic positions in the Company, and to help in formulating the system of remuneration for directors is based on fairness and performance.
- The efficiency and the effectiveness of the corporate governance practices in PT XYZ had never been assessed.

## **5.2 Research Limitations**

Several limitations in this research are as follows:

- a. There is no previous research that analyzes the corporate governance practices at PT XYZ, which can be used as reference for comparison in this research.

- b. Pre-test of the questionnaire has not been conducted before the final questionnaire distributed to the respondents.

### 5.3 Recommendations

According to the constraint and problems that arise on the implementation of Good Corporate Governance principles, the proposed recommendations in order to enhance corporate governance practices in PT XYZ are as follows:

- a. General Meeting of Shareholders should consider the fit and proper test in the process of selecting members of the board of commissioners and directors. By promoting accountability and integrity of candidates of board of commissioners and directors members, the introduction of business process operations of the Company could be faster and will not interfere with the work program that was planned earlier. Moreover, by a transparent selection process of independent commissioner, it will protect the minority shareholders right from and other stakeholders.
- b. Implementation should be top-down approach that involves the board of commissioners and directors of the company. Implementation should also include each of Company's organ efforts to oversee the process of change brought about by the implementation Good Corporate Governance by the new holding Company.
- c. Establishment of the risk management committee by board of commissioners is not obligated by Bapepam-LK and IDX for every public listed company in Indonesia. However, by establishing a risk management committee, it will assist the board of commissioners in establishing an appropriate policy concerning risk assessment, and risk management as well as in reviewing the adequacy, completeness, and implementation effectiveness of the Company's risk management process. Furthermore, the risk management committee will give recommendation to the board of commissioners regarding the improvements were deemed necessary.
- d. Board of commissioners should establish the nomination and remuneration committee. With the establishment of the nomination and remuneration committee, it is expected the monitoring and supervision by board of

commissioners over the board of directors performance in running the Company will be conducted with more independent and professional. This committee need to be established in order to formulate the selection criteria and nomination procedures for strategic positions in companies based on Good Corporate Governance principles, to assist the board of commissioners, and consulting with the board of directors in the selection of candidates for strategic positions in the Company, and to help in formulating the system of remuneration for directors is based on fairness and performance.

- e. Even though composition and size of the audit committee has complied with the regulations prescribed by the Bapepam-LK regarding the obligation for a public company to establish the audit committee, however, the Company needs to evaluate the competence and effectiveness of the audit committee which has been established.
- f. The necessity to increase the awareness of each Company's organ about Good Corporate Governance. This can be done by inviting independent experts from outside the company. Form of activity can be done through seminars, workshops, and discussion groups.
- g. Perform corporate governance assessment or evaluation on a regular basis from time to time to measure how effective the implementation of Good Corporate Governance principles has been performed by requesting an independent party to audit the implementation and scoring of the Company's existing corporate governance practices.

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**Appendix 1**  
**Checklist Corporate Governance Structure Mechanism**  
**for General Meeting of Shareholders**

No.	Description	Yes	No	Other
1	Is the annual meeting of shareholders conducted within 6 months after the Company's financial year end? Source : <i>Undang-Undang tentang Perseroan Terbatas (UUPT)</i> year 2007 article 61 (1)	√		
2	Are the shareholders given at least 28 days notice of the annual shareholders' meeting? Source : FCGI (2006)	√		
3	Is there adequate time given during the annual shareholders' meeting for shareholders to ask questions? Source : FCGI (2006)	√		
4 – 9	Does the annual meeting of shareholders decide the following items? Source: FCGI (2006)			
	4. Company's Annual Report	√		
	5. Financial Statement	√		
	6. Appointment of BOC and BOD	√		
	7. Evaluation of BOC and BOD performance	√		
	8. Compensation of BOD and BOC	√		
	9. Appointment of external auditors		√	



**Appendix 2**  
**Checklist Corporate Governance Structure Mechanism**  
**for Board of Commissioners**

No.	Description	Yes	No	Others
<b>A. Board of Commissioners Independence</b>				
1	<p>Among board of commissioners, how many are independent commissioners?</p> <p><i>The percentage of Independent Board Commissioner member(s) among the overall number of Board of Commissioner member(s).</i></p> <p>Source: FCGI (2006)</p>			33.33%
2	<p>How many board of commissioners' member are employees of shareholders or affiliated companies which owned by shareholders of PT XYZ?</p> <p><i>The percentage of Board Commissioner member(s) are employees of shareholders or affiliated companies which owned by shareholders of PT XYZ among the overall number of Board of Commissioner member(s).</i></p> <p>Source: Kep-305/BEJ/07-2004</p>			66.67%
3	<p>Is the chairman an independent commissioner?</p> <p>Source: Hermawan (2009)</p>		√	
4	<p>Does the Company state in its annual report the definition of independence?</p> <p>Source: Hermawan (2009)</p>		√	
5	<p>Does the Board of Commissioners establish Nomination and Remuneration committees?</p> <p>Source: FCGI (2006)</p>		√	

**Appendix 2**  
**Checklist Corporate Governance Structure Mechanism**  
**for Board of Commissioners (continued)**

No.	Description	Yes	No	Others
6	What is the average years the Board of Commissioners' tenure? Source: Anderson <i>et al.</i> (2004)			1.67 years
<b>B. Board of Commissioners Activities</b>				
7	Have the Company establish Board of Commissioners Charter? Source: FCGI (2006)	√		
8	How many internal meetings were held during the year? Source: FCGI (2006)			1 meeting
9	How is attendance performance of the member of Board of Commissioners in their internal meeting during the year? <i>The percentage of overall Board attendance for the year in percentage.</i> Source: Hermawan (2005)			100 %
10	How many meetings with Board of Directors were held during the year? Source: FCGI (2006)			5 times
11	How is attendance performance of the member of Board of Commissioners on joint meeting with Board of Directors during a year? <i>The percentage of overall Board attendance for the year in percentage.</i> Source: Hermawan (2005)			83.33%
12	How many meetings with Audit Committee were held during the year? Source: FCGI (2006)			4 times

**Appendix 2**  
**Checklist Corporate Governance Structure Mechanism**  
**for Board of Commissioners (continued)**

No.	Description	Yes	No	Others
13	<p>How is attendance performance of the member of Board of Commissioners on joint meeting with Audit Committee during a year?</p> <p><i>The percentage of overall Board attendance for the year in percentage.</i></p> <p>Source: Hermawan (2005)</p>			90%
14	<p>Does the Board of Commissioners present an accountability report regarding their monitoring and evaluation over the Board of Directors' performance in running the Company?</p> <p>Source: KNKG (2006)</p>	√		
15	<p>Does the Board of Commissioners conduct annual performance assessment of the Board of Directors?</p> <p>Source: Hermawan (2009)</p>	√		
16	<p>Does the Board of Commissioners conduct assessment of the business prospects prepared by the Board of Directors?</p> <p>Source: Hermawan (2009)</p>	√		
<b>C. Board of Commissioners Size</b>				
17	<p>What is the size of the Board of Commissioners?</p> <p>Source: FCGI (2006)</p>			6 members

**Appendix 2**

**Checklist Corporate Governance Structure Mechanism  
for Board of Commissioners (continued)**

No.	Description	Yes	No	Others
<b>D. Board of Commissioners Expertise and Competence</b>				
18	<p>How many member of the Board of Commissioners who have a sophisticated knowledge about accounting or finance?</p> <p><i>The proportion of Board members who has the knowledge out of the total number of Board members.</i></p> <p>Source: Xie <i>et al.</i> (2003)</p>			20%
19	<p>Does the Board of Commissioners' member have a sufficient experience about the business (i.e. ever experienced as a member of the board of commissioners in any company including in PT XYZ or as CEO in other company)?</p> <p><i>The proportion of Board members who has the experience about the business out of the total number of Board members.</i></p> <p>Source: Chen <i>et al.</i> (2006)</p>			100%
20	<p>Does the Board of Commissioners' member have a sophisticated knowledge about the Company's business?</p> <p>Source: Xie <i>et al.</i> (2003)</p>			Yes
21	<p>What is the average age of the member of Board of Commissioners?</p> <p>Source: Anderson <i>et al.</i> (2004)</p>			54.5 years

**Appendix 3**  
**Checklist Corporate Governance Structure Mechanism**  
**for Audit Committee**

No.	Description	Yes	No	Others
<b>A. Audit Committee Independence</b>				
1	Is the Chairman of Audit Committee an Independent Commissioner? Source: FCGI (2006)	√		
2	Among the Audit Committee, how many are independent? Source: FCGI (2006)			3 members
<b>B. Audit Committee Activities</b>				
3	Have the Company establish Board of Commissioners Charter? Source: FCGI (2006)	√		
4 – 8	Assess the responsibilities fulfilled by the Audit Committee during the year, include the following items: Source: Hermawan (2009)			
	4. Evaluating internal control	√		
	5. Propose auditor		√	
	6. Financial report review	√		
	7. Evaluating legal compliance	√		
	8. Prepare a complete Audit Committee report for disclosure	√		
9	How many meetings were held during the year? Source: Abbott <i>et al.</i> (2004)			12 meetings

**Appendix 3**  
**Checklist Corporate Governance Structure Mechanism**  
**for Audit Committee (continued)**

No.	Description	Yes	No	Others
10	What is attendance performance of the member of Audit Committee during the year?  <i>The percentage of overall Audit Committee members attendance for the year in percentage</i> Source: Hermawan (2009)			75%
11	Does the Audit Committee report regularly to the Board of Commissioners? Source: FCGI (2006)	√		
12	Does the Audit Committee have regular meetings with the internal auditors? Source: FCGI (2006)	√		
13	Does the Audit Committee have regular meetings with the external auditors? Source: FCGI (2006)		√	
<b>C. Audit Committee Size</b>				
14	What is the size of the Audit Committee? Source: FCGI (2006)			4 members
<b>D. Audit Committee Expertise and Competence</b>				
15	Does the Audit Committee have an accounting background? Source: Dhaliwal <i>et al.</i> (2007)	√		
16	What is the average age of the member of Audit Committee? Source: Anderson <i>et al.</i> (2004)			53.75 years

**Appendix 4**  
**Checklist Corporate Governance Structure Mechanism**  
**for Board of Directors**

No.	Description	Yes	No	Others
<b>A. Board of Directors Activities</b>				
1	Have the Company establish Board of Directors Charter? Source: FCGI (2006)	√		
2	How many meetings were held during the year? Source: FCGI (2006)			39 times
3	How is attendance performance of the member of Board of Directors during the year? <i>The percentage of overall board attendance for the year in percentage</i> Source: Hermawan (2009)			97.95%
4	How many meetings with Board of Commissioners were held during the year? Source: FCGI (2006)			5 times
5	How is attendance performance of the member of Board of Directors on joint meeting with Board of Commissioners during a year? <i>The percentage of overall Directors attendance for the year in percentage.</i> Source: Hermawan (2005)			98%
6	Does the Board of Directors make a list of shareholders? Source: FCGI (2006)	√		
7	Does the Board of Directors formulate vision, mission and values of the Company? Source: KNKG (2006)	√		

**Appendix 4**  
**Checklist Corporate Governance Structure Mechanism**  
**for Board of Directors (continued)**

No.	Description	Yes	No	Others
8	Does the Board of Directors prepare a report on its management accountability which contains a financial report, report on company's activities, and report on the implementation of GCG? Source: KNKG (2006)	√		
<b>B. Board of Directors Size</b>				
9	What is the size of the Board of Directors? Source: FCGI (2006)			5 members
<b>C. Board of Commissioners Expertise and Competence</b>				
10	What is the average age of the member of Board of Directors? Source: Anderson <i>et al.</i> (2004)			54.4 years



**Appendix 5**

**Survey Result of Corporate Governance Structure Working Mechanism  
at the PT XYZ's Board of Commissioners**

No.	Question	Answer
<b>I. Board of Commissioners Composition</b>		
1	Do you think that the current Board of Commissioners size accommodates for carrying out the functions of the Board of Commissioners?	<ul style="list-style-type: none"> <li>• Sufficient (100%)</li> </ul>
2	Do you think that the existing combination of competence on the current Board of Commissioners at this time is an effective combination to achieve optimum work?	<ul style="list-style-type: none"> <li>• Quite effective (20%)</li> <li>• Effective (40%)</li> <li>• Very effective (40%)</li> </ul>
3	Do you think that the current Independent Commissioners size accommodates for carrying out their functions?	<ul style="list-style-type: none"> <li>• Sufficient (100%)</li> </ul>
4	Do you have relationship with the Company as followed? (allowed multiple answers)	<ul style="list-style-type: none"> <li>• Working at affiliated company or group with PT XYZ (3 persons)</li> </ul>
5	a. Have you served in management or as a director or commissioner in the company owned by the shareholders of PT XYZ?	<ul style="list-style-type: none"> <li>• Yes (60%)</li> <li>• No (40%)</li> </ul>
	b. If so, since when or during what period do you hold the position?	<ul style="list-style-type: none"> <li>• 2007 (2 persons)</li> <li>• 2009 (1 person)</li> </ul>
<b>II. Board of Commissioners Capabilities, Competence and Integrity</b>		
6	Do you think that your educational background promotes your duties as Board of Commissioners?	<ul style="list-style-type: none"> <li>• Quite support (40%)</li> <li>• Support (40%)</li> <li>• Very support (20%)</li> </ul>
7	In your opinion, how far you understand about finance?	<ul style="list-style-type: none"> <li>• Understand (60%)</li> <li>• Very understand (40%)</li> </ul>
8	How far is your understanding about the Company operation and business?	<ul style="list-style-type: none"> <li>• Quite understand (20%)</li> <li>• Understand (60%)</li> <li>• Very understand (20%)</li> </ul>
9	Do you think knowledge in finance is important for the Board of Commissioners in carrying out its functions?	<ul style="list-style-type: none"> <li>• Important (40%)</li> <li>• Very important (60%)</li> </ul>

**Appendix 5**

**Survey Result of Corporate Governance Structure Working Mechanism  
at the PT XYZ's Board of Commissioners (continued)**

No.	Question	Answer
10	How do you get an understanding of the concept of Good Corporate Governance? (allowed to select more than one)	<ul style="list-style-type: none"> <li>• Seminar (2/5)</li> <li>• Literature (4/5)</li> <li>• Training (1/5)</li> </ul>
11	In your opinion, the principles of Good Corporate Governance mentioned below has been applied in this company in what form?	
	a. Transparency	
	<p><b>The answers of Q11a</b></p> <ul style="list-style-type: none"> <li>• Deliver important and accurate information through Annual Report and Financial Statements to the shareholders and other stakeholders.</li> <li>• Deliver information about company performance transparency.</li> <li>• Deliver Company's annual work plan to stakeholders transparently.</li> <li>• Held Board of Commissioners internal meetings periodically and deliver the results of the meeting to all members.</li> <li>• Ensuring auditor audits the Company in delivering the audit results transparently</li> <li>• Opening access to stakeholders to obtain information on the condition of the Company transparently.</li> </ul>	
	b. Accountability	
	<p><b>The answers of Q11b</b></p> <ul style="list-style-type: none"> <li>• A clear segregation of duties between the organ company, such as through establishment of BOC and BOD Charter.</li> <li>• The existence of good communication between the Directors and Commissioners through periodical meetings.</li> <li>• BOC supervises the management of the Company by the BOD</li> <li>• BOC provides advice to the BOD regarding the strategic decisions made and executed by the BOD.</li> </ul>	

**Appendix 5**

**Survey Result of Corporate Governance Structure Working Mechanism  
at the PT XYZ's Board of Commissioners (continued)**

No.	Question	Answer
11	c. Responsibility	
<p><b>The answers of Q11c</b></p> <ul style="list-style-type: none"> <li>• Comply the provisions of the Articles of Association and existing regulations applicable to the implementation of company's activities</li> <li>• Comply with labor regulations, safety, competition, and other current regulations which set by the Government.</li> <li>• Socialization of new regulations to every the organ company.</li> <li>• Carry out tax obligations according the current laws.</li> <li>• Running corporate social responsibility.</li> </ul>		
	d. Independence	
<p><b>The answers of Q11d</b></p> <ul style="list-style-type: none"> <li>• Each individual in the company may develop creativity according to field of their responsibility.</li> <li>• The company is run and managed professionally without any pressure from external parties.</li> <li>• Mutually respect for the rights and obligations between each organ company.</li> <li>• Each organ of the company always avoids the occurrence of conflict of interest.</li> <li>• The existence of Independent Commissioners in monitoring the performance of the management.</li> </ul>		
	e. Fairness and Equality	
<p><b>The answers of Q11e</b></p> <ul style="list-style-type: none"> <li>• Every individual is not limited to interact with each other as long as remain in full compliance with the regulations.</li> <li>• Fairness and equality in fulfilling the rights of each stakeholder and shareholders.</li> <li>• Fairness and equality in fulfilling the rights of each employee, such as an equal job opportunity.</li> <li>• The existence of Ethics and Code of Conduct which binds the whole entity of the Company.</li> <li>• Treating each Company's partner in fairly.</li> </ul>		

**Appendix 5**

**Survey Result of Corporate Governance Structure Working Mechanism  
at the PT XYZ's Board of Commissioners (continued)**

No.	Question	Answer
12	Are you referring to the Code of Good Corporate Governance in carrying out the duties, authority, and your responsibilities as the Board of Commissioners?	<ul style="list-style-type: none"> <li>• Referring (40%)</li> <li>• Very referring (60%)</li> </ul>
<b>III. Board of Commissioners Activities</b>		
13	a. In your opinion, how many times the Board of Commissioners should conduct an internal meeting in a year?	<ul style="list-style-type: none"> <li>• 1-4 times (40%)</li> <li>• 5-8 times (60%)</li> </ul>
	b. Usually, what are the main agenda of that meeting?	
	<b>The answers of Q13b</b> <ul style="list-style-type: none"> <li>• The current Company performance.</li> <li>• Company performance evaluation.</li> <li>• Evaluation on Board of Directors work plan and accomplishment.</li> <li>• Company's business strategy planning and the execution in the future.</li> <li>• Update the current regulation.</li> </ul>	
14	a. In your opinion, how many times the Board of Commissioners should conduct a meeting with the Board of Directors in a year?	<ul style="list-style-type: none"> <li>• 1-4 times (40%)</li> <li>• 5-8 times (60%)</li> </ul>
	b. Usually, what are the main agenda of that meeting?	
	<b>The answers of Q14b</b> <ul style="list-style-type: none"> <li>• Reviewing the current Company performance accomplishment.</li> <li>• Reviewing the financial performance and annual budget.</li> <li>• Progress of realization of business performance compared with the actual business plan and the cause of have not achieving the plan.</li> <li>• Providing suggestion and recommendation to the Board of Directors.</li> <li>• Monitoring implementation and corporate performance.</li> </ul>	
15	a. In your opinion, how many times the Board of Commissioners should conduct a meeting with Audit Committee in a year?	<ul style="list-style-type: none"> <li>• 1-4 times (60%)</li> <li>• 5-8 times (40%)</li> </ul>

**Appendix 5**

**Survey Result of Corporate Governance Structure Working Mechanism  
at the PT XYZ's Board of Commissioners (continued)**

No.	Question	Answer
15	b. Usually, what are the main agenda of that meeting?	
	<p><b>The answers of Q15b</b></p> <ul style="list-style-type: none"> <li>• Audit report on evaluation of the financial statements.</li> <li>• Audit report on evaluation regarding the effectiveness of internal audit by Internal Auditor.</li> <li>• Audit Committee work plan for the next year.</li> <li>• Follow-up on audit findings from Internal Auditor.</li> </ul>	
16	Do you have the opportunity to share your input, opinions, ideas, and comments at every meeting?	<ul style="list-style-type: none"> <li>• Agree (60%)</li> <li>• Very agree (40%)</li> </ul>
17	Does the Board of Commissioners conduct an annual evaluation of management performance during the ongoing year?	<ul style="list-style-type: none"> <li>• Agree (20%)</li> <li>• Very agree (80%)</li> </ul>
18	Does the Board of Commissioners evaluating financial performance reported at the Company financial statements?	<ul style="list-style-type: none"> <li>• Agree (20%)</li> <li>• Very agree (80%)</li> </ul>
19	Do you think that the Board of Commissioners report presented at the annual report reflects the overall performance management?	<ul style="list-style-type: none"> <li>• Agree (20%)</li> <li>• Very agree (80%)</li> </ul>
20	Do you think that the Board of Commissioners evaluates work plan and strategic plan which will be implemented by the Board of Directors?	<ul style="list-style-type: none"> <li>• Agree (20%)</li> <li>• Very agree (80%)</li> </ul>
21	Do you think that at annual report of the Board of Commissioners provide a statement about the evaluation of business prospects which is prepared by management?	<ul style="list-style-type: none"> <li>• Agree (20%)</li> <li>• Very agree (80%)</li> </ul>

**Appendix 6**

**Survey Result of Corporate Governance Structure Working Mechanism  
at the PT XYZ's Audit Committee**

No.	Question	Answer
<b>I. Audit Committee Composition</b>		
1	Do you think that the current Audit Committee size accommodates for carrying out the functions of the Audit Committee?	<ul style="list-style-type: none"> <li>• Sufficient (100%)</li> </ul>
2	Do you think that the existing combination of competence on the current Audit Committee at this time is an effective combination to achieve optimum work?	<ul style="list-style-type: none"> <li>• Effective (50%)</li> <li>• Very effective (50%)</li> </ul>
3	In your opinion, what competencies are still needed or not yet exist in Audit Committee at this time?	<ul style="list-style-type: none"> <li>• Technical (3/4)</li> <li>• Audit (2/4)</li> <li>• None (1/4)</li> </ul>
4	Do you have relationship with the Company as followed? (allowed multiple answers)	<ul style="list-style-type: none"> <li>• Working at affiliated company or group with PT XYZ (1 person)</li> </ul>
5	a. Have you previously been or are currently working as a management, directors or commissioners at the company owned by the shareholders of PT XYZ?	<ul style="list-style-type: none"> <li>• Yes (75%)</li> <li>• No (25%)</li> </ul>
	b. If so, since when or during what period do you hold the position?	<ul style="list-style-type: none"> <li>• 2009 (1 person)</li> </ul>
<b>II. Audit Committee Capabilities, Competence and Integrity</b>		
6	Do you think that your educational background promotes your duties as Audit Committee?	<ul style="list-style-type: none"> <li>• Quite support (25%)</li> <li>• Support (50%)</li> <li>• Very support (25%)</li> </ul>
7	In your opinion, how far you understand about finance?	<ul style="list-style-type: none"> <li>• Quite understand (75%)</li> <li>• Understand (25%)</li> </ul>
8	In your opinion, how far you understand about accounting and auditing?	<ul style="list-style-type: none"> <li>• Quite understand (25%)</li> <li>• Understand (50%)</li> <li>• Very understand (25%)</li> </ul>
9	How far is your understanding of the Audit Committee Charter?	<ul style="list-style-type: none"> <li>• Understand (75%)</li> <li>• Very understand (25%)</li> </ul>
10	How far is your understanding about the Company operation and business?	<ul style="list-style-type: none"> <li>• Less understand (25%)</li> <li>• Quite understand (25%)</li> <li>• Understand (50%)</li> </ul>

**Appendix 6**

**Survey Result of Corporate Governance Structure Working Mechanism  
at the PT XYZ's Audit Committee (continued)**

No.	Question	Answer
11	Do you think knowledge in finance is important for the Audit Committee in discharging oversight duties?	<ul style="list-style-type: none"> <li>• Very important (100%)</li> </ul>
12	Do you think knowledge in accounting and auditing is important for the Audit Committee in discharging oversight duties?	<ul style="list-style-type: none"> <li>• Important (75%)</li> <li>• Very important (25%)</li> </ul>
13	How do you get an understanding of the concept of Good Corporate Governance? (allowed to select more than one)	<ul style="list-style-type: none"> <li>• Seminar (2/4)</li> <li>• Literature (4/4)</li> </ul>
14	In your opinion, the principles of Good Corporate Governance mentioned below has been applied in this company in what form?	
	a. Transparency	
	<p><b>The answers of Q14a</b></p> <ul style="list-style-type: none"> <li>• Internal meeting of the Board of Commissioners are periodically and deliver the results of the meeting to all members present / not present.</li> <li>• Companies deliver important information about the company in the Annual Report and Financial Statements to the shareholders and other stakeholders.</li> <li>• Transparency in financial reporting to stakeholders.</li> <li>• Transparency in delivering information about Company performance</li> </ul>	
	b. Accountability	
	<p><b>The answers of Q14b</b></p> <ul style="list-style-type: none"> <li>• The Company has established a clear segregation of duties and responsibilities for each Company's organ in detail, according the Company's vision and mission.</li> <li>• The existence of good communication between the Directors and Commissioners.</li> <li>• The existence of rules governing the policy regarding the duties and responsibilities of each organ company.</li> </ul>	

**Appendix 6**

**Survey Result of Corporate Governance Structure Working Mechanism  
at the PT XYZ's Audit Committee (continued)**

No.	Question	Answer
	c. Responsibility	
	<p><b>The answers of Q14c</b></p> <ul style="list-style-type: none"> <li>• Run the company according to the rules of the prevailing laws.</li> <li>• In every execution of the activities and decision making, the company always comply with the Articles of Association and company regulations</li> <li>• Comply with law in force in Indonesia in running the company.</li> <li>• Carry out the Corporate Social Responsibility</li> <li>• Implementation of corporate codes of ethics.</li> </ul>	
	d. Independence	
	<p><b>The answers of Q14d</b></p> <ul style="list-style-type: none"> <li>• The company is run and managed professionally without any pressure from external parties, ie other than the organ company</li> <li>• Mutually respect for the rights and obligations between each organ company</li> <li>• In making the decision, the organ of the company always try to avoid the occurrence of conflict of interest</li> <li>• The existence of independent commissioners who oversee the performance management</li> <li>• Running the Business Companies according with prevailing rules without intervention from any party</li> <li>• The existence of an external auditor who audited the financial statements to prevent corrupt practices</li> </ul>	
	e. Fairness and Equality	
	<p><b>The answers of Q14e</b></p> <ul style="list-style-type: none"> <li>• Fairness and equality in fulfilling the rights of each stakeholder and shareholders</li> <li>• Equality and fairness in the fulfillment of rights and obligations of employees by the Company</li> <li>• The company provides equal opportunities in career and in performing their duties</li> <li>• Fairness in the process of selling shares of the Company and subject to the applicable regulations of the Capital Market</li> </ul>	



**Appendix 6**

**Survey Result of Corporate Governance Structure Working Mechanism  
at the PT XYZ's Audit Committee (continued)**

No.	Question	Answer
15	Are you referring to the Audit Committee Charter in carrying out the duties, authority, and your responsibilities as the Audit Committee?	<ul style="list-style-type: none"> <li>• Referring (50%)</li> <li>• Very referring (50%)</li> </ul>
16	In your opinion, whether the Company Audit Committee Charter stated the duties of the Audit Committee in detail?	<ul style="list-style-type: none"> <li>• Agree (75%)</li> <li>• Very agree (25%)</li> </ul>
<b>III. Audit Committee Activities</b>		
17	In your opinion, how many times Audit Committee should conduct an internal meeting in a year?	<ul style="list-style-type: none"> <li>• 5-8 times (25%)</li> <li>• 9-12 times (75%)</li> </ul>
18	In your opinion, how many times the Audit Committee should conduct a meeting with Board of Directors in a year?	<ul style="list-style-type: none"> <li>• 1-4 times (75%)</li> <li>• 5-8 times (25%)</li> </ul>
19	a. In your opinion, how many times the Audit Committee should conduct a meeting with Board of Commissioners in a year?	<ul style="list-style-type: none"> <li>• 1-4 times (50%)</li> <li>• 5-8 times (50%)</li> </ul>
	b. Usually, what are the main agenda of that meeting?	
<p><b>The answers of Q19b</b></p> <ul style="list-style-type: none"> <li>• Audit report of the Audit Committee.</li> <li>• The monitoring of the management company run by the Board of Directors.</li> <li>• The evaluation of effectiveness of audit.</li> <li>• Monitoring and evaluation for planning and execution of audit</li> <li>• The follow-up monitoring of audit results in order to assess the adequacy of the financial reporting process.</li> </ul>		
20	a. In your opinion, how many times the Audit Committee should conduct a meeting with Internal Auditor in a year?	<ul style="list-style-type: none"> <li>• 1-4 times (25%)</li> <li>• 5-8 times (75%)</li> </ul>

**Appendix 6**

**Survey Result of Corporate Governance Structure Working Mechanism  
at the PT XYZ's Audit Committee (continued)**

No.	Question	Answer
	b. Usually, what are the main agenda of that meeting?	
	<p><b>The answers of Q20b</b></p> <ul style="list-style-type: none"> <li>• The supervision of the qualifications and independence of internal audit functions to enhance the performance and effectiveness of the internal audit function.</li> <li>• Evaluation and audit report by Internal Auditor on the Company's business activities.</li> <li>• Monitoring and evaluation of the implementation of follow-up by the Board on the findings Internal Auditor.</li> <li>• Audit and evaluation plan implementation.</li> <li>• Update the findings of internal auditors.</li> </ul>	
21	a. In your opinion, how many times the Audit Committee should conduct a meeting with External Auditor in a year?	<ul style="list-style-type: none"> <li>• 1 times (25%)</li> <li>• 2 times (50%)</li> <li>• 3 times (25%)</li> </ul>
	b. Usually, what are the main agenda of that meeting?	
	<p><b>The answers of Q21b</b></p> <ul style="list-style-type: none"> <li>• The monitoring and providing advice/suggestions related to efforts to improve the quality of financial reports.</li> <li>• Ensuring the effectiveness of internal control system that can reduce the chance occurrence of irrelevancy in the management company.</li> <li>• The monitoring and follow-up completion of external audit findings.</li> </ul>	
22	What has been done by the Audit Committee to evaluate the Company internal control?	
	<p><b>The answers of Q22</b></p> <ul style="list-style-type: none"> <li>• Evaluation of financial statement</li> <li>• Evaluation of the implementation and effectiveness of internal audit</li> <li>• Monitoring the Internal Auditor and evaluate the annual audit program</li> <li>• Hold regular meetings with Internal Auditor Conducting monitoring and evaluation for planning and executing audits and monitoring of follow-up results of the audit in order to assess the adequacy of internal control, including the adequacy of the financial reporting process.</li> </ul>	

**Appendix 6**

**Survey Result of Corporate Governance Structure Working Mechanism  
at the PT XYZ's Audit Committee (continued)**

No.	Question	Answer
23	Does the Audit Committee is actively trying to obtain current information about the cases found by the Internal Auditor and External Auditor?	<ul style="list-style-type: none"> <li>• Less active (25%)</li> <li>• Quite active (25%)</li> <li>• Active (25%)</li> <li>• Very active (25%)</li> </ul>
24	In your opinion, how active is the involvement of the Audit Committee in the process of selecting external auditors?	<ul style="list-style-type: none"> <li>• Less active (75%)</li> <li>• Quite active (25%)</li> </ul>
25	Does Audit Committee evaluate the following criteria of External Auditor?	
	a. Scope	<ul style="list-style-type: none"> <li>• Yes (100%)</li> </ul>
	b. Accuracy	<ul style="list-style-type: none"> <li>• Yes (100%)</li> </ul>
	c. Cost Effectiveness	<ul style="list-style-type: none"> <li>• Yes (75%)</li> <li>• No (25%)</li> </ul>
	d. Independency	<ul style="list-style-type: none"> <li>• Yes (100%)</li> </ul>
	e. Objectivity	<ul style="list-style-type: none"> <li>• Yes (100%)</li> </ul>
26	Does the current Audit Committee evaluate the Company's risk management?	<ul style="list-style-type: none"> <li>• Disagree (50%)</li> <li>• Quite agree (50%)</li> </ul>
27	Do the findings of the Audit Committee were followed up by the BOC?	<ul style="list-style-type: none"> <li>• Agree (75%)</li> <li>• Very agree (25%)</li> </ul>
28	Do you think the Audit Committee report which is presented at annual report reflects the optimal work of the Audit Committee of the optimal?	<ul style="list-style-type: none"> <li>• Agree (50%)</li> <li>• Very agree (50%)</li> </ul>
29	Does the Audit Committee independently evaluate the performance of Internal Auditors?	<ul style="list-style-type: none"> <li>• Quite independent (50%)</li> <li>• Independent (75%)</li> <li>• Very independent (25%)</li> </ul>
30	Does the Audit Committee independently evaluate the performance of External Auditors?	<ul style="list-style-type: none"> <li>• Quite independent (25%)</li> <li>• Independent (75%)</li> </ul>
31	How often does the Internal Auditor reports to the Audit Committee?	<ul style="list-style-type: none"> <li>• Once in 6 months (100%)</li> </ul>

**Appendix 7**

**Survey Result of Corporate Governance Structure Working Mechanism  
at the PT XYZ's Board of Directors**

No.	Question	Answer
<b>I. Board of Director Composition</b>		
1	Do you think that the current Board of Directors size accommodates for carrying out the functions of the Board of Directors?	<ul style="list-style-type: none"> <li>• Sufficient (100%)</li> </ul>
2	Do you think that the unaffiliated Board of Directors size accommodates the discharge of its functions?	<ul style="list-style-type: none"> <li>• Sufficient (100%)</li> </ul>
3	a. Do you have any family relationship with the owner of the Company?	<ul style="list-style-type: none"> <li>• No (100%)</li> </ul>
	b. If yes, in what form of relationship?	-
<b>II. Board of Directors Capabilities, Competence and Integrity</b>		
4	Do you think that your educational background promotes your duties as the Board of Directors?	<ul style="list-style-type: none"> <li>• Support (75%)</li> <li>• Very support (25%)</li> </ul>
5	a. Have you previously worked as director / commissioner at other companies?	<ul style="list-style-type: none"> <li>• Yes (75%)</li> <li>• No (25%)</li> </ul>
	b. If yes, as what?	<ul style="list-style-type: none"> <li>• Commissioner (1 person)</li> <li>• Directors (2 person)</li> </ul>
6	How do you get an understanding of the concept of Good Corporate Governance? (allowed to select more than one)	<ul style="list-style-type: none"> <li>• Seminar (2/4)</li> <li>• Literature (3/4)</li> <li>• Training (2/4)</li> </ul>
7	In your opinion, the principles of Good Corporate Governance mentioned below has been applied in this company in what form?	
	a. Transparency	
<p><b>The answers of Q7a</b></p> <ul style="list-style-type: none"> <li>• Regularly report the company performance to BapepamLK and implement all Public Company Act rules which set by BapepamLK.</li> <li>• Using e-procurement for the procurement process.</li> <li>• Company's policies are carried out through discussion in a transparent and responsible disclosure.</li> <li>• Provides information about strategic plans, work programs, budgets and implementation through the media that is easily accessible.</li> </ul>		

**Appendix 7**

**Survey Result of Corporate Governance Structure Working Mechanism  
at the PT XYZ's Board of Directors (continued)**

No.	Question	Answer
	b. Accountability	
	<p><b>The answers of Q7b</b></p> <ul style="list-style-type: none"> <li>• The existence of Internal Auditor (SPI), Public accountant and Audit committee.</li> <li>• Commitment to stakeholders.</li> <li>• Accountability according to job-description.</li> <li>• Accountability through BOD and BOC meetings.</li> <li>• Accountability through General Meeting of Shareholders.</li> <li>• Uphold to the code of conduct in carrying out duties.</li> </ul>	
	c. Responsibility	
	<p><b>The answers of Q7c</b></p> <ul style="list-style-type: none"> <li>• Responsibility of each leader and employee are described in the standard operating procedure (SOP) work instruction.</li> <li>• The existence of organization structure and its clear segregation of duties and authority.</li> <li>• Compliance with the current law and the company's Article of Association.</li> <li>• Concern with the environment and conducting CSR.</li> </ul>	
	d. Independence	
	<p><b>The answers of Q7d</b></p> <ul style="list-style-type: none"> <li>• Every employee is entitled to have the right to express opinions and make decisions according to duties and responsibilities.</li> <li>• Run all relevant rules without intervention from any party.</li> <li>• All decisions are made independently.</li> <li>• There are different opinions in the meeting but in the end there will be one decision.</li> <li>• Free from the conflict of interest.</li> <li>• Perform duties without the domination from any parties.</li> </ul>	

**Appendix 7**

**Survey Result of Corporate Governance Structure Working Mechanism  
at the PT XYZ's Board of Directors (continued)**

No.	Question	Answer
	e. Fairness and Equality	
	<p><b>The answers of Q7e</b></p> <ul style="list-style-type: none"> <li>• Procurement of goods carried out by tender</li> <li>• Periodically audited by the relevant institutions regarding the company's business scope</li> <li>• Equality decision</li> <li>• The fair and in accordance with the applicable laws, Articles of Association, and regulation by Bapepam/BEJ</li> <li>• The company provides equal opportunities in career and in performing their duties</li> <li>• Fair and equal treatment of all employees according to their contribution to the company</li> </ul>	
8	Are you referring to the Code of Good Corporate Governance in carrying out the duties, authority, and your responsibilities as the Board of Directors?	<ul style="list-style-type: none"> <li>• Very referring (50%)</li> <li>• Referring (25%)</li> <li>• Quite referring (25%)</li> </ul>
<b>III. Board of Directors Activities</b>		
9	In your opinion, how many times the Board of Directors should conduct an internal meeting within one month?	<ul style="list-style-type: none"> <li>• 3-4 times (100%)</li> </ul>
10	a. In your opinion, how many times the Board of Directors should conduct a meeting with the Board of Commissioners in a year?	<ul style="list-style-type: none"> <li>• 5-8 times (50%)</li> <li>• 1-4 times (50%)</li> </ul>
	b. Usually, what are the main agenda of that meeting?	
	<p><b>The answers of Q10b</b></p> <ul style="list-style-type: none"> <li>• Company work plan</li> <li>• Company performance report and its monitoring</li> <li>• The suggestions from the Board of Commissioners</li> <li>• To keep track the Company budget</li> <li>• Issues that requires the Board of Commissioners' decisions</li> <li>• Important matters/issues related to company development progress</li> <li>• Plan of the three months ahead company target</li> </ul>	

**Appendix 7**

**Survey Result of Corporate Governance Structure Working Mechanism  
at the PT XYZ's Board of Directors (continued)**

<b>No.</b>	<b>Question</b>	<b>Answer</b>
11	At the meeting of the Board of Directors with the Board of Commissioners, do you think the Company performance evaluation related with business plan and targets are discussed comprehensively?	<ul style="list-style-type: none"> <li>• Very agree (75%)</li> <li>• Agree (25%)</li> </ul>
12	In your opinion, recommendation from the Board of Commissioners has been implemented by _____ % (percent)?	<ul style="list-style-type: none"> <li>• 100% (75%)</li> <li>• 90% (25%)</li> </ul>

**SURVEI**  
**MEKANISME KERJA**  
***CORPORATE GOVERNANCE STRUCTURE***  
**PADA DEWAN KOMISARIS PT XYZ**

**2011**



# **SURVEY MEKANISME CORPORATE GOVERNANCE STRUCTURE PADA DEWAN KOMISARIS PT XYZ**

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Yth. Bapak/Ibu Dewan Komisaris PT XYZ,

Saya Olivia Wulandari (NPM:0906586000), selaku mahasiswa Program Studi MM – MBA Universitas Indonesia, sedang melaksanakan penelitian yang akan diajukan sebagai syarat untuk mendapatkan gelar MM MBA. Kuesioner ini dimaksudkan untuk memperoleh pemahaman yang lebih baik atas mekanisme kerja *corporate governance structure* pada perusahaan Bapak/Ibu. Oleh karena itu, saya memohon kesediaan Anda dalam turut serta membantu penelitian ini dengan meluangkan waktu untuk mengisi kuesioner ini.

Bapak/Ibu diminta membaca petunjuk pengisian kuesioner ini terlebih dahulu dan kemudian Bapak/Ibu dapat mengisi nama dan jabatan. Untuk menambah keyakinan Bapak/Ibu dalam mengisi dan membantu dalam penelitian ini, diinformasikan bahwa data yang saya peroleh dari kuesioner ini hanya untuk penelitian dan semua jawaban akan dirahasiakan.

Nama :

Jabatan :

Telp/HP :

Prinsip pengisian kuesioner dalam survei ini adalah:

- Tidak ada jawaban yang benar atau salah
- Mengisi pernyataan isian dengan lengkap dan sebenar-benarnya. Jika ada jawaban yang saya anggap kurang jelas, Bapak/Ibu akan saya hubungi langsung agar diperoleh pemahaman yang sama.
- Bapak/Ibu dimohonkan hanya memberikan satu pilihan jawaban yang diungkapkan paling sesuai dengan memberikan tanda silang (x) pada kotak yang telah disediakan.

Saya akan menjaga kerahasiaan informasi yang Bapak/Ibu berikan. Saya sangat menghargai perhatian dan kerjasama Bapak/Ibu dalam survei ini. Atas perhatiannya, Saya mengucapkan terima kasih.

Jakarta, Mei 2010

Olivia Wulandari

# SURVEY MEKANISME CORPORATE GOVERNANCE STRUCTURE PADA DEWAN KOMISARIS PT XYZ

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## I. Komposisi Dewan Komisaris

1. Menurut Anda, apakah jumlah anggota Dewan Komisaris saat ini sudah mengakomodir untuk pelaksanaan fungsi Dewan Komisaris?

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
sangat kurang	kurang	cukup	berlebih	sangat berlebih	tidak tahu

2. Menurut Anda, apakah kombinasi kompetensi yang ada pada Dewan Komisaris saat ini merupakan kombinasi yang efektif untuk mendapatkan hasil kerja yang optimal?

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
sangat tidak efektif	tidak efektif	cukup efektif	efektif	sangat efektif	tidak tahu

3. Menurut Anda, apakah jumlah Komisaris Independen saat ini sudah mengakomodir untuk pelaksanaan fungsinya?

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
sangat kurang	kurang	cukup	berlebih	sangat berlebih	tidak tahu

4. Apakah Anda memiliki hubungan dengan PT. XYZ (bisa lebih dari satu) sebagai:

mantan management/direksi PT. XYZ  
jika ya, pada periode kapan? (*tolong sebutkan*) \_\_\_\_\_

bekerja pada perusahaan yang berafiliasi atau satu grup dengan PT. XYZ

hubungan keluarga

Hubungan lainnya (sebutkan) \_\_\_\_\_

5. a. Apakah Anda menjabat dalam management atau sebagai direksi atau komisaris pada perusahaan yang dimiliki oleh pemegang saham PT. XYZ?

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
ya	tidak	tidak tahu

- b. Jika iya, sejak atau pada periode kapankah Anda menjabat posisi tersebut?

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# SURVEY MEKANISME CORPORATE GOVERNANCE STRUCTURE PADA DEWAN KOMISARIS PT XYZ

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## II. Kemampuan, Kompetensi dan Integritas Dewan Komisaris

6. Menurut Anda, apakah latar belakang pendidikan Anda mendukung pelaksanaan tugas Anda sebagai anggota Dewan Komisaris?

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
sangat tidak mendukung	kurang mendukung	cukup mendukung	mendukung	sangat mendukung	tidak tahu

7. Menurut Anda, sejauh mana Anda memahami bidang ilmu keuangan?

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
sangat tidak paham	kurang paham	cukup paham	paham	sangat paham	tidak tahu

8. Seberapa jauh pemahaman Anda tentang operasi dan bisnis Perusahaan?

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
sangat tidak paham	kurang paham	cukup paham	paham	sangat paham	tidak tahu

9. Apakah menurut Anda pengetahuan di bidang ilmu keuangan penting bagi Dewan Komisaris dalam menjalankan fungsinya?

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
sangat tidak penting	kurang penting	cukup penting	penting	sangat penting	tidak tahu

10. Bagaimana Anda mendapatkan pemahaman tentang konsep Good Corporate Governance? (bisa pilih lebih dari satu)?

- Literatur
- Seminar
- Training

Lainnya (sebutkan) \_\_\_\_\_

11. Menurut Anda prinsip-prinsip Good Corporate Governance dibawah ini telah diaplikasikan dalam perusahaan ini dalam bentuk apa?

a. Transparansi

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# SURVEY MEKANISME CORPORATE GOVERNANCE STRUCTURE PADA DEWAN KOMISARIS PT XYZ

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b. Akuntabilitas

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c. Responsibilitas

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d. Independensi

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e. Kewajaran dan Kesetaraan

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12. Apakah Anda mengacu pada Pedoman Good Corporate Governance dalam melaksanakan tugas, wewenang, dan tanggung jawab Anda sebagai Dewan Komisaris

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
sangat tidak mengacu	kurang mengacu	cukup mengacu	mengacu	sangat mengacu	tidak tahu

# SURVEY MEKANISME CORPORATE GOVERNANCE STRUCTURE PADA DEWAN KOMISARIS PT XYZ

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### III. Aktivitas Dewan Komisaris

13. a. Menurut Anda, berapa kali Dewan Komisaris seharusnya mengadakan rapat internal dalam satu tahun?

1-4 kali

5-8 kali

9-12 kali

>12 kali

tidak  
tahu

b. Apa saja yang biasanya menjadi agenda utama pada rapat tersebut?

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14. a. Menurut Anda, berapa kali Dewan Komisaris seharusnya mengadakan rapat dengan Dewan Direksi dalam satu tahun?

1-4 kali

5-8 kali

9-12 kali

>12 kali

tidak  
tahu

b. Apa saja yang biasanya menjadi agenda utama pada rapat tersebut?

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15. a. Menurut Anda, berapa kali Dewan Komisaris seharusnya mengadakan rapat dengan Komite Audit dalam satu tahun?

1-4 kali

5-8 kali

9-12 kali

>12 kali

tidak  
tahu

b. Apa saja yang biasanya menjadi agenda utama pada rapat tersebut?

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# SURVEY MEKANISME CORPORATE GOVERNANCE STRUCTURE PADA DEWAN KOMISARIS PT XYZ

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16. Apakah Anda memiliki kesempatan untuk menyampaikan masukan, pendapat, gagasan, dan komentar pada setiap rapat?

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
sangat tidak setuju	kurang setuju	cukup setuju	setuju	sangat setuju	tidak tahu

17. Apakah Dewan Komisaris melakukan evaluasi tahunan atas kinerja manajemen selama satu tahun berjalan?

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
sangat tidak setuju	kurang setuju	cukup setuju	setuju	sangat setuju	tidak tahu

18. Apakah Dewan Komisaris melakukan evaluasi atas kinerja keuangan yang dilaporkan pada laporan keuangan PT. XYZ?

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
sangat tidak setuju	kurang setuju	cukup setuju	setuju	sangat setuju	tidak tahu

19. Menurut Anda, apakah laporan Dewan Komisaris yang disampaikan pada laporan tahunan mencerminkan kinerja manajemen yang secara menyeluruh?

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
sangat tidak setuju	kurang setuju	cukup setuju	setuju	sangat setuju	tidak tahu

20. Menurut Anda, apakah Dewan Komisaris mengevaluasi rencana kerja dan rencana strategik yang akan dilaksanakan oleh Dewan Direksi?

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
sangat tidak setuju	kurang setuju	cukup setuju	setuju	sangat setuju	tidak tahu

21. Menurut Anda, apakah pada laporan tahunan Dewan Komisaris memberikan pernyataan tentang evaluasi atas prospek bisnis yang disiapkan oleh manajemen?

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
sangat tidak setuju	kurang setuju	cukup setuju	setuju	sangat setuju	tidak tahu

**SURVEI**  
**MEKANISME KERJA**  
***CORPORATE GOVERNANCE STRUCTURE***  
**PADA KOMITE AUDIT PT XYZ**

**2011**

# **SURVEY MEKANISME CORPORATE GOVERNANCE STRUCTURE PADA KOMITE AUDIT PT XYZ**

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Yth. Bapak/Ibu Komite Audit PT XYZ,

Saya Olivia Wulandari (NPM:0906586000), selaku mahasiswa Program Studi MM – MBA Universitas Indonesia, sedang melaksanakan penelitian yang akan diajukan sebagai syarat untuk mendapatkan gelar MM MBA. Kuesioner ini dimaksudkan untuk memperoleh pemahaman yang lebih baik atas mekanisme kerja *corporate governance structure* pada perusahaan Bapak/Ibu. Oleh karena itu, saya memohon kesediaan Anda dalam turut serta membantu penelitian ini dengan meluangkan waktu untuk mengisi kuesioner ini.

Bapak/Ibu diminta membaca petunjuk pengisian kuesioner ini terlebih dahulu dan kemudian Bapak/Ibu dapat mengisi nama dan jabatan. Untuk menambah keyakinan Bapak/Ibu dalam mengisi dan membantu dalam penelitian ini, diinformasikan bahwa data yang saya peroleh dari kuesioner ini hanya untuk penelitian dan semua jawaban akan dirahasiakan.

Nama :

Jabatan :

Telp/HP :

Prinsip pengisian kuesioner dalam survei ini adalah:

- Tidak ada jawaban yang benar atau salah
- Mengisi pernyataan isian dengan lengkap dan sebenar-benarnya. Jika ada jawaban yang saya anggap kurang jelas, Bapak/Ibu akan saya hubungi langsung agar diperoleh pemahaman yang sama.
- Bapak/Ibu dimohonkan hanya memberikan satu pilihan jawaban yang diungkapkan paling sesuai dengan memberikan tanda silang (x) pada kotak yang telah disediakan.

Saya akan menjaga kerahasiaan informasi yang Bapak/Ibu berikan. Saya sangat menghargai perhatian dan kerjasama Bapak/Ibu dalam survei ini. Atas perhatiannya, Saya mengucapkan terima kasih.

Jakarta, Mei 2010

Olivia Wulandari



# SURVEY MEKANISME CORPORATE GOVERNANCE STRUCTURE PADA KOMITE AUDIT PT XYZ

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## I. Komposisi Komite Audit

1. Menurut Anda, apakah jumlah anggota Komite Audit saat ini sudah mengakomodir untuk pelaksanaan fungsi Komite Audit?

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
sangat kurang	kurang	cukup	berlebih	sangat berlebih	tidak tahu

2. Menurut Anda, apakah kombinasi kompetensi yang ada pada Komite Audit saat ini merupakan kombinasi yang efektif untuk mendapatkan hasil kerja yang optimal?

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
sangat tidak efektif	tidak efektif	cukup efektif	efektif	sangat efektif	tidak tahu

3. Menurut Anda, kompetensi apa saja yang masih dibutuhkan atau belum ada dalam Komite Audit saat ini?

- Keuangan
- Teknis
- Audit

Kompetensi lainnya (sebutkan) \_\_\_\_\_

4. Apakah Anda memiliki hubungan dengan PT. XYZ (bisa lebih dari satu) sebagai:

- mantan karyawan/direksi PT. XYZ  
jika iya, pada periode kapan? (*tolong sebutkan*) \_\_\_\_\_
- bekerja pada perusahaan yang berafiliasi atau satu grup dengan PT. XYZ
- hubungan keluarga

Hubungan lainnya (sebutkan) \_\_\_\_\_

5. a. Apakah Anda sebelumnya pernah atau sedang bekerja sebagai management, direksi atau komisaris pada perusahaan yang dimiliki oleh pemegang saham PT. XYZ?

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
ya	tidak	tidak tahu

- b. Jika iya, sejak kapankah Anda menjabat posisi tersebut?

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

# SURVEY MEKANISME CORPORATE GOVERNANCE STRUCTURE PADA KOMITE AUDIT PT XYZ

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## II. Kemampuan, Kompetensi dan Integritas Komite Audit

6. Menurut Anda, apakah latar belakang pendidikan Anda mendukung pelaksanaan tugas Anda sebagai anggota Komite Audit?

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
sangat tidak mendukung	kurang mendukung	cukup mendukung	mendukung	sangat mendukung	tidak tahu

7. Menurut Anda, sejauh mana Anda memahami bidang ilmu keuangan?

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
sangat tidak paham	kurang paham	cukup paham	paham	sangat paham	tidak tahu

8. Menurut Anda, sejauh mana Anda memahami bidang ilmu akuntansi dan audit?

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
sangat tidak paham	kurang paham	cukup paham	paham	sangat paham	tidak tahu

9. Seberapa jauh pemahaman Anda tentang *Audit Committee Charter*?

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
sangat tidak paham	kurang paham	cukup paham	paham	sangat paham	tidak tahu

10. Seberapa jauh pemahaman Anda tentang operasi dan bisnis Perusahaan?

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
sangat tidak paham	kurang paham	cukup paham	paham	sangat paham	tidak tahu

11. Apakah menurut Anda pengetahuan di bidang ilmu keuangan penting bagi Komite Audit dalam menjalankan fungsi pengawasan?

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
sangat tidak penting	kurang penting	cukup penting	penting	sangat penting	tidak tahu

12. Apakah menurut Anda pengetahuan di bidang ilmu akuntansi dan audit penting bagi Komite Audit dalam menjalankan fungsi pengawasan?

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
sangat tidak penting	kurang penting	cukup penting	penting	sangat penting	tidak tahu

13. Bagaimana Anda mendapatkan pemahaman tentang konsep Good Corporate Governance? (bisa pilih lebih dari satu)?

Literatur

Seminar

# SURVEY MEKANISME CORPORATE GOVERNANCE STRUCTURE PADA KOMITE AUDIT PT XYZ

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Training

Lainnya (sebutkan) \_\_\_\_\_

14. Menurut Anda prinsip-prinsip Good Corporate Governance dibawah ini telah diaplikasikan dalam perusahaan ini dalam bentuk apa?

a. Transparansi

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b. Akuntabilitas

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c. Responsibilitas

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d. Independensi

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e. Kewajaran dan Kesetaraan

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## SURVEY MEKANISME CORPORATE GOVERNANCE STRUCTURE PADA KOMITE AUDIT PT XYZ

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15. Apakah Anda berpegang teguh pada *Audit Committee Charter* dalam melaksanakan tugas, wewenang, dan tanggung jawab Anda sebagai Komite Audit?

- |                          |                          |                          |                          |                          |                          |
|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| sangat<br>tidak setuju   | kurang<br>setuju         | cukup<br>setuju          | setuju                   | sangat<br>setuju         | tidak<br>tahu            |

16. Menurut Anda, apakah Pedoman Good Corporate Governance yang dimiliki Perusahaan mencantumkan secara rinci tugas Komite Audit?

- |                          |                          |                          |                          |                          |                          |
|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| sangat<br>tidak setuju   | kurang<br>setuju         | cukup<br>setuju          | setuju                   | sangat<br>setuju         | tidak<br>tahu            |

# SURVEY MEKANISME CORPORATE GOVERNANCE STRUCTURE PADA KOMITE AUDIT PT XYZ

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### III. Aktivitas Komite Audit

17. Menurut Anda, berapa kali Komite Audit seharusnya mengadakan rapat internal dalam satu tahun?

1-4 kali

5-8 kali

9-12 kali

>12 kali

tidak tahu

18. Menurut Anda, berapa kali Komite Audit seharusnya mengadakan rapat dengan Dewan Direksi dalam satu tahun?

1-4 kali

5-8 kali

9-12 kali

>12 kali

tidak tahu

19. a. Menurut Anda, berapa kali Komite Audit seharusnya mengadakan rapat dengan Dewan Komisaris dalam satu tahun?

1-4 kali

5-8 kali

9-12 kali

>12 kali

tidak tahu

b. Apa saja yang biasanya menjadi agenda utama pada rapat tersebut?

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20. a. Menurut Anda, berapa kali Komite Audit seharusnya mengadakan rapat dengan Auditor Internal dalam satu tahun?

1-4 kali

5-8 kali

9-12 kali

>12 kali

tidak tahu

b. Apa saja yang biasanya menjadi agenda utama pada rapat tersebut?

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21. a. Menurut Anda, berapa kali Komite Audit seharusnya mengadakan rapat dengan Auditor Eksternal dalam satu tahun?

1 kali

2 kali

3 kali

4 kali

>4 kali

tidak tahu

# SURVEY MEKANISME CORPORATE GOVERNANCE STRUCTURE PADA KOMITE AUDIT PT XYZ

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b. Apa saja yang biasanya menjadi agenda utama pada rapat tersebut?

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22. Apakah yang telah dilakukan oleh Komite Audit untuk mengevaluasi *internal control* PT. XYZ?

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23. Apakah Komite Audit secara aktif berusaha memperoleh informasi terkini tentang kasus-kasus yang ditemukan oleh Auditor Internal maupun Auditor Eksternal?

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
sangat tidak aktif	kurang aktif	cukup aktif	aktif	sangat aktif	tidak tahu

24. Menurut Anda, seberapa aktifkah keterlibatan Komite Audit dalam proses pemilihan Auditor Eksternal?

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
sangat tidak aktif	kurang aktif	cukup aktif	aktif	sangat aktif	tidak tahu

25. Apakah Komite Audit dalam mengevaluasi Auditor Eksternal atas faktor-faktor berikut ini?

a. Lingkup kerja (*scope*)

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
ya	tidak	tidak tahu

b. Keakuratan

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
ya	tidak	tidak tahu

c. Efektifitas biaya

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
ya	tidak	tidak tahu

# SURVEY MEKANISME CORPORATE GOVERNANCE STRUCTURE PADA KOMITE AUDIT PT XYZ

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d. Independensi

ya

tidak

tidak  
tahu

e. Obyektivitas

ya

tidak

tidak  
tahu

26. Apakah Komite Audit saat ini telah mengevaluasi manajemen risiko Perusahaan?

sangat  
tidak setuju

kurang  
setuju

cukup  
setuju

setuju

sangat  
setuju

tidak  
tahu

27. Apakah temuan Komite Audit ditindaklanjuti oleh Dewan Komisaris?

sangat  
tidak setuju

kurang  
setuju

cukup  
setuju

setuju

sangat  
setuju

tidak  
tahu

28. Menurut Anda apakah laporan Komite Audit yang disampaikan pada laporan tahunan sudah mencerminkan hasil kerja Komite Audit yang optimal?

sangat  
tidak setuju

kurang  
setuju

cukup  
setuju

setuju

sangat  
setuju

tidak  
tahu

29. Apakah Komite Audit secara independen mengevaluasi kinerja Auditor Internal?

sangat  
tidak independen

kurang  
independen

cukup  
independen

setuju

sangat  
independen

tidak  
tahu

30. Apakah Komite Audit secara independen mengevaluasi kinerja Auditor Eksternal?

sangat  
tidak independen

tidak  
independen

cukup  
independen

independen

sangat  
independen

tidak  
tahu

31. Seberapa sering Auditor Internal memberikan laporan kepada Komite Audit?

1 bulan sekali

3 bulan sekali

6 bulan sekali

1 tahun sekali

Lainnya (sebutkan) \_\_\_\_\_

**SURVEI**  
**MEKANISME KERJA**  
***CORPORATE GOVERNANCE STRUCTURE***  
**PADA DEWAN DIREKSI PT XYZ**

**2011**



# **SURVEY MEKANISME CORPORATE GOVERNANCE STRUCTURE PADA DEWAN DIREKSI PT XYZ**

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Yth. Bapak/Ibu Dewan Direksi PT XYZ,

Saya Olivia Wulandari (NPM:0906586000), selaku mahasiswa Program Studi MM – MBA Universitas Indonesia, sedang melaksanakan penelitian yang akan diajukan sebagai syarat untuk mendapatkan gelar MM MBA. Kuesioner ini dimaksudkan untuk memperoleh pemahaman yang lebih baik atas mekanisme kerja *corporate governance structure* pada perusahaan Bapak/Ibu. Oleh karena itu, saya memohon kesediaan Anda dalam turut serta membantu penelitian ini dengan meluangkan waktu untuk mengisi kuesioner ini.

Bapak/Ibu diminta membaca petunjuk pengisian kuesioner ini terlebih dahulu dan kemudian Bapak/Ibu dapat mengisi nama dan jabatan. Untuk menambah keyakinan Bapak/Ibu dalam mengisi dan membantu dalam penelitian ini, diinformasikan bahwa data yang saya peroleh dari kuesioner ini hanya untuk penelitian dan semua jawaban akan dirahasiakan.

Nama :

Jabatan :

Telp/HP :

Prinsip pengisian kuesioner dalam survei ini adalah:

- Tidak ada jawaban yang benar atau salah
- Mengisi pernyataan isian dengan lengkap dan sebenar-benarnya. Jika ada jawaban yang saya anggap kurang jelas, Bapak/Ibu akan saya hubungi langsung agar diperoleh pemahaman yang sama.
- Bapak/Ibu dimohonkan hanya memberikan satu pilihan jawaban yang diungkapkan paling sesuai dengan memberikan tanda silang (x) pada kotak yang telah disediakan.

Saya akan menjaga kerahasiaan informasi yang Bapak/Ibu berikan. Saya sangat menghargai perhatian dan kerjasama Bapak/Ibu dalam survei ini. Atas perhatiannya, Saya mengucapkan terima kasih.

Jakarta, Mei 2010

Olivia Wulandari

# SURVEY MEKANISME CORPORATE GOVERNANCE STRUCTURE PADA DEWAN DIREKSI PT XYZ

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## I. Komposisi Dewan Direksi

1. Menurut Anda, apakah jumlah anggota Dewan Direksi sesudah saat ini sudah untuk pelaksanaan fungsi Dewan Direksi?

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
sangat kurang	kurang	cukup	berlebih	sangat berlebih	tidak tahu

2. Menurut Anda, apakah jumlah anggota Dewan Direksi yang tidak terafiliasi saat ini sudah untuk pelaksanaan fungsinya?

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
sangat kurang	kurang	cukup	berlebih	sangat berlebih	tidak tahu

3. a. Apakah Anda mempunyai hubungan keluarga dengan pemilik dengan PT. XYZ?

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
ya	tidak	tidak tahu

- b. Dalam bentuk apa?

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# SURVEY MEKANISME CORPORATE GOVERNANCE STRUCTURE PADA DEWAN DIREKSI PT XYZ

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## II. Kemampuan, Kompetensi dan Integritas Dewan Direksi

4. Menurut Anda, apakah latar belakang pendidikan Anda mendukung pelaksanaan tugas Anda sebagai Dewan Direksi?

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
sangat tidak mendukung	kurang mendukung	cukup mendukung	mendukung	sangat mendukung	tidak tahu

5. a. Apakah Anda sebelumnya pernah bekerja sebagai direksi/komisaris pada perusahaan lain?

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
ya	tidak	tidak tahu

b. Jika iya, sebagai apa?

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6. Bagaimana Anda mendapatkan pemahaman tentang konsep Good Corporate Governance? (bisa pilih lebih dari satu)?

Literatur

Seminar

Training

Lainnya (sebutkan) \_\_\_\_\_

7. Menurut Anda prinsip-prinsip Good Corporate Governance dibawah ini telah diaplikasikan dalam perusahaan ini dalam bentuk apa?

a. Transparansi

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b. Akuntabilitas

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# SURVEY MEKANISME CORPORATE GOVERNANCE STRUCTURE PADA DEWAN DIREKSI PT XYZ

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c. **Responsibilitas**

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d. **Independensi**

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e. **Kewajaran dan Kesetaraan**

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8. Apakah Anda mengacu pada Pedoman Good Corporate Governance dalam melaksanakan tugas, wewenang, dan tanggung jawab Anda sebagai Dewan Direksi?

- |                          |                          |                          |                          |                          |                          |
|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| sangat<br>tidak setuju   | kurang<br>setuju         | cukup                    | setuju                   | sangat<br>setuju         | tidak<br>tahu            |

# SURVEY MEKANISME CORPORATE GOVERNANCE STRUCTURE PADA DEWAN DIREKSI PT XYZ

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### III. Aktivitas Dewan Direksi

9. Menurut Anda, berapa kali Dewan Direksi seharusnya mengadakan rapat internal dalam satu bulan?

1-2 kali

3-4 kali

5-6 kali

7-8 kali

>8 kali

tidak  
tahu

10. a. Menurut Anda, berapa kali Dewan Direksi seharusnya mengadakan rapat dengan Dewan Komisaris dalam satu tahun?

1-4 kali

5-8 kali

9-12 kali

>12 kali

tidak  
tahu

b. Apa saja yang biasanya menjadi agenda utama pada rapat tersebut?

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11. Pada pertemuan Dewan Direksi dan Dewan Komisaris, menurut Anda apakah evaluasi kinerja Perseroan berkaitan dengan rencana dan target bisnis telah dibahas secara lengkap?

sangat  
tidak setuju

kurang  
setuju

cukup

setuju

sangat  
setuju

tidak  
tahu

12. Menurut Anda, rekomendasi dari Dewan Komisaris sudah dijalankan \_\_\_\_\_ % (persen)?