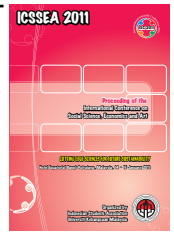




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# Implementation Strategy: Good Corporate Governance in Indonesian Islamic Banking

Ro'fah Setyowati<sup>#</sup>, Bedjo Santoso<sup>\*</sup>

<sup>#</sup> Law Department University Kebangsaan Malaysia

Bangi, 43600, Malaysia

E-mail: rofahundip@yahoo.com

<sup>\*</sup>International Islamic University Malaysia

Gombak, Malaysia

E-mail: birdjaww@yahoo.com

**Abstract**— Good corporate governance (GCG) is a system of organizing and conducting enterprise to create value-added (value added) to all stakeholders. This concept was emphasized in two areas, namely, first, the importance of the right to obtain a true and accurate information on time and, second, the duty of companies to do disclosure (disclosure) is accurate, right time, transparent to all the information industry performance, ownership, and stakeholders. There are four main components needed for the concept Corporate Good governance, namely fairness, Transparency, accountability, and responsibility. The fourth component is crucial for the implementation of the principles of Good Corporate governance consistently proven to improve the quality of the company. Of all the above, raised a number of knots that Islam requires the user BANKING consumer protection as conventional. Protection intended to be separated into general and specific protection. General protection means that the user needs with the needs of Islamic BANKING conventional user. While the specific coverage requirements, only for the consumer BANKING Islam. Things changed in view of the Islamic BANKING users have different needs, relating with confidence that the basis for their use of Islam as well as institutional BANKING Islam has principles that must be applied and monitored in the against sharia compliant.

**Keywords**— strategy, good corporate governance, implementation.

## I. INTRODUCTION

Good Corporate Governance is an institution of management procedures with a specified standard in the nation. Good Corporate governance is fundamentally a part of the effort to create a healthy BANKING. But because the term and concept has been used consistently in a variety of different countries, but in this description shall be noted separately by health of BANK. With the existence of Good Corporate Governance in the Islamic Bank will provide a great sense of security for users, so as not to hesitate to take advantage of the financial administration of the Bank. This was very necessary for the economic development of a country, especially Indonesia which currently expanding Islamic Bank to follow the economy sustain the nation.

## II. INDONESIA'S POSITION IN THE LOWEST ORDER OF APPLICATION OF GOOD CORPORATE GOVERNANCE (GCG) ON ISLAMIC BANKING

In Asian countries, the implementation of corporate governance is an important part of economic reforms are absolutely necessary to overcome the economic crisis. This matter is strong evidence that a country with good governance will survive when the country faces economic crisis. Most Asian countries at this time have begun to accept and realize that they need a repair or reform in the market, enterprises, and their government.

The level of investor protection in Indonesia is the lowest in Southeast Asia. It is because of practical matter GCG in Indonesia has not fully implemented by public enterprises. As a result the board grader (ratings) has put Indonesia on the international community under the order. Report on Corporate governance by CLSA (2003) put Indonesia in order to bottom with a score of 1.5 Action problems of

jurisprudence, 2.5 for institutional and cultural mechanisms of corporate governance, with a total score of 3.2. Although Indonesia score is four in 2004 that is better than 2003, but the fact still remains at the bottom of the order of the other Asian countries. Other Asian countries, among others, Singapore, Hongkong, India, Indonesia, Korea, Taiwan, Thailand, Philippine, and China. The most factors caused the Indonesian performance are law enforcement and corporate governance culture that is still at the lowest point in the other countries that are growing in Asia.

The above further reinforced by reports of GCG by CLSA (2003), placing Indonesia in order to bottom with a score of 1.5 law enforcement problem, 2.5 for institutional and cultural mechanisms corporate governance, and a total of 3.2. Although scores of Indonesia in the year 2004 is better than 2003, in fact, Indonesia is still in the bottom sequence of Asian countries. These factors cause the low performance of Indonesia is strengthening the legal and corporate governance culture is still at the lowest point in the other countries that are growing in Asia. Assessment conducted by CLSA based on external factors to weigh 60% compared with the internal factors that are given weight only 40%.

### III. IMPLEMENTATION STRATEGY : GOOD CORPORATE GOVERNANCE IN INDONESIA

The above facts show that the implementation of GCG in Indonesia requires serious attention and a comprehensive approach and the rule of the more real action. Implementation of GCG is necessary in the global competition between enterprises situations like this time. GCG practice into one of the critical indicators for investors in choosing a company for investment. Survey adopted by the World Bank - McKinsey Consulting Group indicates that foreign investors (Asia, Europe, U.S., is located) is ready to provide premium 26% - 28% of the Indonesian company has effectively implemented the practice of GCG. GCG include all kinds of good industrial enterprises closed or open, non-profit or profit. General literature on corporate governance indirectly assume is open only company that is the subject of analysis.

However, looking at the situation this time, the implementation of GCG will not be up to the same without the efforts of the public sector. It is because that pre GCG is important in the implementation of the present mapping. World Bank policy recommendation of ROSC was doing the mapping. Here are some key recommendations of the World Bank: Minorities shareholders should be given voting rights in the process of nomination of Commissioners and members of director, such as by give the rights to shareholders without having to violate provisions minorities' one share one vote.

1. Public enterprises are recommended to have the nomination and remuneration committee. This recommendation is governed by guidelines and nomination of committee remunasi formation. This matter must be supported by 'Bapepam' and 'BEJ' to issue rules requiring public companies have a nomination and committee of remunasi.
2. Recommended for adoption of international standards in financial reporting. ACCOUNTING standard financial

statement that is currently already almost in line with international accounting standards (IAS).

3. Steps forward to protect the minorities shareholders.
4. Strengthen market surveillance by 'Bapepam' and 'BEJ'. Development of market surveillance can be done through the development of human resources and information technology. Bapepam and BEJ need to be integrated their systems control, and it is need to be supported a human resources professional.
5. Confirm the legal responsibility of Accountants. Accountants suggested that the public law program strengthens the legal responsibility of Accountants, in particular related to the third party and to allow the legal claim against the Accountants where there is clear fraud or negligence.
6. To shorthand annual report submission period. From the 120 days, and since 2003 has been reduced to 90 days.
7. Clarify the rights and accountability Independent Commissioner. In company law, the role of Independent Commissioner is in line with the role of commissioner.
8. Further developing guidance on the independent commissioner. This was related to the Business of the role, duties, and accountability of independent Commissioners.
9. That there is a clear summary of the transactions that have the impact of interest for the director. Impact of interest situations should set the guidelines of conduct (code of conduct) enterprise

Based on the awareness of the importance of GCG practices in various fields, and learn from the experiences of other Asian countries, as well as the fact that Indonesia is still in serious condition due to the economic crisis that has been ten years, the government indeed had to make many efforts in order to respond to this well. Although the seriousness of the effort to do it straight from the various constraints that accompany.

All the efforts applied in the framework of socialization and implementation of GCG in Indonesia from the decision of the Minister GOVERNMENT COMPANY encourage the implementation of GCG in particular for GOVERNMENT COMPANY, capital market regulation in the field and independent institutions such as the governance committee of National Policy (KNKG). While the regulator, such as Bank Indonesia, Ministry of Finance has set a target is a GCG created as part of the creation of value-added of the Indonesian Financial System.

Private sector or multi-range of industries in Indonesia were not left behind in supporting and strengthening the implementation of GCG, one to perform a comprehensive transformation that touches all the personal from top level management to the lowest level and to include aspects of cultural GCG owned enterprises.

Indonesia's commitment to develop GCG.

Several Indonesian government's commitment to the practice of GCG can be shown with the following activities:

- a. Formed the National Committee on Corporate governance Privacy (KNKCG) by "Minister of economic and finance" No: KEP/31/M.EKUI/08/1999 the formation of the next issue guidelines KNKCG GCG Indonesia.

- b. This time the National Policy Committee was established governance (KNKG) instead of the letter KNKCG Minister of Economic, No: KEP/49/M.EKON/11/2004. Sub-Committee consisting of Public Enterprises and the Sub-Committee.
- c. Decision of the Minister of Administrative GOVERNMENT COMPANY No. Kep-133/M-PGOVERNMENT COMPANY/1999 the formation of the Audit Committee for GOVERNMENT COMPANY.
- d. Distribution Letter of 'Bapepam' Chief No. Se-03/PM/2000 the Audit Committee which contains the Audit Committee call for the need of each individual Emitting.
- e. Peraturan Menteri Nomor GOVERNMENT COMPANY PER-05/MBU/2008 About General Guidelines for Procurement of Goods and Service implementation GOVERNMENT COMPANY.
- f. No decision GOVERNMENT COMPANY. 09A/MBU/2005 About & Proper Fit Assessment Process Test Candidate Members Director GOVERNMENT COMPANY.
- g. Letter of No Distribution Minister GOVERNMENT COMPANY. 106 Year 2000 and the decision of the Minister GOVERNMENT COMPANY No. 23 of 2000 - to arrange and formulate the development of good corporate governance practices in the company Ltd.
- h. Completed with the decision of the Minister KEP-117/M-MBU/2002 GOVERNMENT COMPANY No. Kep-117/M-MBU/2002 on the Application of Good Practice on Corporate governance GOVERNMENT COMPANY.
- i. Bank Indonesia Regulation (PBI) Acc. GCG 8/4/PBI/2006 of the page with PBI No. 8/14/GCG/2006.

Meanwhile the private sector has been moved to the commitment. This has materialized in a number of things:

- a. In 2000, the Jakarta Stock Exchange (now Bursa Efek Indonesia) use the results of Director of 'PT Bursa Efek Jakarta' No. Posting Rules Kep-315/BEJ/062000 case No effect. IA, which, among other duties are arranged on the Independent Commissioner, Audit Committee, gave an active role in the Industrial Secretaries obligation of information disclosure and require enterprise information appears to convey the material and relevant.
- b. Birth of Forum for Corporate governance in Indonesia (FCGI).
- c. The birth of Indonesian Institute for Corporate governance (IICG)
- d. The birth of Indonesian Institute for Corporate Directorship (IICD)
- e. Birth of the Board of Commissioners and the Director of Indonesia (LKDI) which among other activities provide forums to discuss various matters LKDI as legal responsibility for the Commissioner and Director, clean money laws etc.
- f. The birth of Indonesia Corporate Secretary Association (ICSA)
- g. The birth of the Association of Audit Committee of Indonesia (IKAI)
- h. Birth of Internal Auditors Association (AAI)

- i. Birth clinic GCG Kadin
- j. Annual Report Award
- k. Various awards of the GCG

Next enter the evaluation, the level needs to be done on a regular basis from time to time to measure the effectiveness of the implementation of GCG was done by requiring the parties to do independent audit and scoring on the practical implementation of the existing GCG. There are many industry consultants that can provide such audit services, and in Indonesia there are several companies that make scoring. Evaluation in the form of assessment, audit or scoring can be done such as mandatory as applied in the range GOVERNMENT COMPANY. Evaluation can help companies map the return conditions and situations as well as access to enterprise in the implementation of GCG to be working on improvements that need to be based on recommendations given. While brief, the parameters in the implementation of GCG, in essence already have three:

- a. Compliance (adherence) is the extent to which the company has complied with existing rules to meet the principles of GCG;
- b. Conformance (relevance and completeness) the extent to which the company has attitude according to various aspects of the principle elements of GCG and equipment to meet the needs of the implementation of GCG.
- c. Performance (performance) is the extent to which the industry has been showing proof (evidence) which shows that the company has obtained substantial benefits from applying the GCG principles in the industry.

Of some existing activities, the overall corporate governance practices primarily in Indonesia is divided into three activities. First, set a national policy. Second, complete the regulatory framework. Third, the developing private sector initiatives. In implementation, the acting is also of interest to participate. National Policy Committee Corporate governance in the beginning of the year 2005 at the National Committee to change the governance policy GCG has issued guidelines in June 2001. The guidelines followed by the publication Guidelines GCG Bank Indonesia, Guidelines for the audit committee, and guidelines for independent commissioner in 2004. All publications are considered necessary to provide the mold in the implementation of GCG. Government shall make special efforts with the community hand side LB in socialized and implementing GCG. Two key sectors of the GOVERNMENT and COMPANY Capital Market has been a concern of the government.

Meanwhile, in the framework of regulations there are some rules associated with the GCG and legal reform in general, namely Law No. 10 of the Bank of Indonesia Year 1998, the Anti Corruption Law of 1999, Law of Business Competition in 1999, and the Legal Year 2003 GOVERNMENT COMPANY.

BANKING Law, the principles also regulate aspects of the GCG, such as governance Structure, governance Process and Outcome governance. Structure governance that consists of: First, increase competence and integrity through management BANKING test the feasibility and propriety of owners, the shareholders of the operator, Commissioner Hall, director, and executive offices in management activity of BANKING. Second, management independent of BANKING, where the members of the House of

Commissioners and the director cannot have a social relationship or a scam to contact the commissioners and the hall director or a shareholder in the company of other operators. Third, the standard implementation of internal audit functions of public BANKING, BANKING required to show compliance director responsible for compliance with the regulations is BANKING. Process governance consists of risk management and internal operations. Implementation of risk management required for BANKING to implement risk management.

Outcome of the governance, Bank Indonesia has issued several regulations, among others, transparency about the financial condition BANKING and increase the role of external auditors. BANKING is required to disclose non-performing loan, shareholder and operator affiliation, and risk management practices in financial reporting.

The application of the principles of GCG in Indonesia itself is influenced both by cultural factors as well as historical. The second aspect was a union that cannot be separated, and have close relation with social elements. These factors are a significant obstacle for the government to adopt various policies. Complexity and diversity of Indonesian society is also another factor in creating problems or face-concept of good management or supervision. As the case is a substance that has been deployed in the GCG UUPT.

Would be better understood with the background culture that Indonesia is very diverse and therefore in applying the principles included in the scope of LB and replaced legislative act regulations, a variety of approaches are needed. LB Indonesia community need means law to give bail, while the government also has prompted many parties to adopt the principles of GCG. In addition, the introduction of the doctrines of law of the company will be among the efforts by various professional. Although various efforts have been adopted, but the concept cannot be said to have been effectively applied in across Indonesia.

#### IV. INDONESIA'S BANK AND GCG STRATEGY TO STRENGTHEN ENFORCEMENT AND RESTRUCTURE IN LAW

In addition to the above legal culture, for the low application of GCG in Indonesia is about the implement the law (law enforcement). Indonesia does not lack the legal product. In real terms the GCG was there, but still spread in various legislative Act rules are: UUPT, Capital Market Law, Law and Regulation, BANKING Act, and others. However, implementation by the authority, as Bank Indonesia, Bapepam, IBRA, Ministry of finance, GOVERNMENT COMPANY, but justice is still very weak.

In relating with the matter, law enforcement affect the realization of GCG. Law enforcement in Indonesia is still not reflect the overall protection and are not in favor of the sense of justice as people expected. Many legal problems, for example, in some cases rocks Liquidity BANK Indonesia (BLBI), which resolved with a political approach rather than through a legal approach. In other words, the political interests of many illegal process in this state.

This has given the concept of legal culture, it was important for the developing countries. These countries often take the code or code-law system, legislative western act in the countries, in an effort to modernize the local legal

framework. Further problems emerge when the impact of transplant law with local legal culture. If the local legal culture does not accept the structure of the foreign legal system or law that is taken, it is imported from foreign legal system cannot be applied appropriately.

Related to the experience of the principles of GCG in Indonesia, shows that the legal culture that influenced the action is related to corporate governance is the concept of cultural sociology 'Patrimonialism' stated by Weber with reference to the system patriarchy relationship, where my father not only has power in family life but also in the social context, LB, or political. Some practitioners say that patrimonialism provide many aspects of life in Indonesia, including the development of the implementation of GCG in Indonesia. So it is possible that the patrimonial likely effect on corporate governance in Indonesia.

Specific implementation of GCG principles in BANKING, BANK Indonesia (BI) has made a policy program known as Architecture Bank Indonesia (API) in which the objects found in Nature to-three, from six items to be obtained is relevant to the implementation of GCG in order to strengthen the internal situation of the national BANKING. In line with the same Tjager (2003) states that the necessary regulations GCG-cutting nature, such as among BANKING to a mold for BANKING managers in managing their enterprises in accordance with the principles of GCG. Furthermore, to establish the role of Bank Indonesia in the implementation arrangements of the world GCG BANKING, should be developed a directed strategy to encourage healthy BANKING internal governance and a conducive external environment in which nothing instrument terms with respect to the implementation of GCG principles.

As such, this role should be optimized through the use of Bank Indonesia Regulation required the National Bank to implement the GCG. It was already filled with the formulation of Bank Indonesia Regulation No.: 8/4/PBI/2006 About Implementation of Good Corporate governance for banks. This step is important to practice as the regulations issued by Bank Indonesia to implement the principles of GCG was once hidden and not systematic due to spread in other regulations, such as the transparent risk management, compliance, audit function arrangements, and so on.

With the existence of these regulations, Bank Indonesia should follow the policy of mechanism for monitoring to ensure that the rules in actual practice. This matter can be practiced along with steps to optimized the role of the arrangement, i.e. by making rules and regulations directed to optimizing the role of surveillance practiced by the BI, among other.

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- a. Compulsory national BANKING GCG to measure performance in self assessment and the results of the self assessment periodically reported to the BI. This was adopted in order to help enterprises understand the condition of GCG, GCG to identify areas are still poor,

and improve the weak areas that still appear to be an awareness of attitudes towards implementation BANKING GCG;

- b. BANKING requires a practice to combine information about GCG in a BANKING (what belongs to shitty, bad, moderate, good, good one, or given any sort) in financial reporting. Thus, all stakeholders or shareholders know how GCG implemented in a BANKING, which means to increase transparency through disclosure.

## V. CONCLUSION

Of all the above, raised a number of knots that Islam requires the user BANKING consumer protection as conventional. Protection intended to be separated into general and specific protection. General protection means that the user needs with the needs of Islamic BANKING conventional user. While the specific coverage requirements, only for the consumer BANKING Islam. Things changed in view of the Islamic BANKING users have different needs, relating with confidence that the basis for their use of Islam as well as institutional BANKING Islam has principles that must be applied and monitored in the against sharia compliant .

Corporate governance (GCG) is a system of organizing and conducting enterprise to create value-added (value added) to all stakeholders. This concept was emphasized in two areas, namely, first, the importance of the right to obtain a true and accurate information on time and, second, the duty of companies to do disclosure (disclosure) is accurate, right time, transparent to all the information industry performance, ownership, and stakeholders. There are four main components needed for the concept Corporate Good governance, namely fairness, Transparency, accountability, and responsibility. The fourth component is crucial for the implementation of the principles of Good Corporate governance consistently proven to improve the quality of the company.

So, Good Corporate governance is a form of public protection for consumers Islamic BANKING basically intended to protect the business user community. Given the Bank as a business institution that is dependent on consumer confidence. In addition, the consumer confidence is very important, because BANKING institutions have a very big role in a country's overall economic activity. Therefore, the question of maintaining the trust of the user community is what's important is for each country, which is essentially the same form of consumer protection in general BANKING.

Awareness is the foundation for the country's role in providing consumer protection through the frame BANKING ACT -invitation. After the experience of the financial crisis and the subsequent BANKING a multidimensional crisis, Indonesia has formulated various regulations required for the business user community to recover the BANKING industry. However, to date, the crisis has not finished and many are still many problems that need solutions quest. This was due to many factors which affect, among others, weak supervision, the legal culture of a society that does not support, legislative act rules are not coordinated and systematic.

Therefore, it can be said that the implementation of the Good governance Corporate BANKING Islam as the fulfillment of user rights to the first three, and the rights to nine if the reference to the rights of users, as uploaded by the consumer protection laws. Specifically with respect to this information, Bank Indonesia also has a provision as contained in the rules of Good Corporate governance. Efforts to support these things, then legislative act regulations in respect of health BANKING made include a various forms, whether in the form of law, government regulation, results of the President, Bank Indonesia Regulation, Bank Indonesia and Distribution Letter of Bank Indonesia Director decision. Observe the understanding that, although not all the legislation that was enacted, but in view of its requirements were very broad, it is still necessary legislative framework BANKING act others to support Islam.

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