GOOD CORPORATE GOVERNANCE IN TELECOMMUNICATION AND TECHNOLOGY INDUSTRY SECTOR IN INDONESIA[1]

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ABSTRAK

Tujuan penelitian ini adalah menginvestigasi implementasi tata kelola perusahaan yang baik dalam sector industry telekomunikasi dan teknologi di Indonesia. Implementasi tata kelola perusahaan yang baik ini diukur dengan menggunakan aksi perusahaan, elemen-elemen tata kelola perusahaan yang baik dalam struktur organisasi, indicator independensi kepemilikan public oleh BvDEP, hasil laporan keuangan auditan, dan return ats asset total. Data diperoleh dari basis data OSIRIS dari tahun 2005 sd 2007 dan diuji dengan alat analisis regresi. Hasil studi ini memperlihatkan bahwa faktor-faktor yang mempengaruhi capaaian laba bersih di Indonesia adalah indikator independensi dan aksi perusahaan.

Kata kunci: Tata kelola perusahaan, sektor industri telekomunikasi & teknologi

1. Background

This research is aimed at finding the empirical answers of the implementation of *good corporate governance* on the financial performance achievement, especially the net profit, in communication and technology companies in Indonesia country who owned an emerging capital market. This research is focussed on the communication and technology industry in Indonesia country based on the following reasons. First, existing research haven't specifically discuss the industrial sector which is an interesting factor to be studied, since each sector of industries has its own different regulation. For example, some industries are highly regulated, like the banking sector, and some are not.

Second, this reserach specifically focussed on communication and technology company since this type of company is considered as blue chip company whose stock are favorited in the stock market. By focussing on communication and information technology company, this research hopes to contribute more on understanding of which contributing factors affect the profit gain. The above understanding will further help investor in making precise decisions.

Third, by focussing on one specific industry sector, which is communation and information technology sector, this research can get detail information on the subject which in turn will help the researchers in understanding the caharacteristics of pertinent sector compared to other sector, and also the general characteristics of each sector.

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This study is focussed on testing the implementation of GCG principal which is proxy with the transparancy of reported company activities, the quality of financial report, public ownership, management performance, and the completeness of GCG organisation structure. Transparancy proxy of company's movement is included as the implementation of transparancy principal in non-financial aspect. Company's movement/ or activity is a variable which has never been tested in previous GCG research in Indonesia. The completeness of GCG organisation structure is measured by the total number of team in the GCG in communication and technology company. This is done in order to improve some proxies in completeness of GCG organisation structure.

The implementation of GCG in Indonesia country has unique characteristics. Indonesia country chosen because of their characterictics of having specific communication and technology policy and capital market which are show performance communication and technology industry sector. Besides, Indonesia country has implemented the GCG between the period of 2001 to 2003, learning from the 1997-1999 economic crisis which hit the region quite hard.

Indonesia country were considered as the country suffered most from the economic crisis at 1997. Crisis which began in Thailand spread up to most countries in South East Asia. At that time, Indonesia was hit by the crisis at the most severe level, due to its intern political crisis. Many companies that did not implement the principal of GCG were collapsed. Learning from that crisis, countries in South East Asia Region then implement the *good corporate governance* in many companies, especially in stock market. Whereas the ideas of implementing the GCG has been sounded in the stock market in South East Asia countries from 2001.

Good corporate governance has been widely implemented in many companies in Indonesia since last decade. Prior studies suggest that implementation of *good corporate governance* may have an impact on financial performance achievement. This research objective is to investigate the impact of *good corporate governance* implementation on the financial performance achievement. To do so, this research provides an insight into the contributing factors to affect profit gain.

The proxy of GCG implementation are transparancy of reported company activities, the quality of financial report, public ownership, management performance, and the completeness of GCG organization structure. Company activities variable includes implementation of transparancy principal in non-financial aspect. In addition, such variable has never been tested in previous GCG research in Indonesia. The completeness of GCG organization structure is measured using total number of team in the GCG in telecommunication and technology company.

Wedari (2004) measures the composition of GCG organization board using existence of audit committee as a proxy. This proxy counted the composition of GCG organisation board with audit committee proxy which is measureb by 'available' or 'not available'. Herawaty (2008) applies the independent commissioner as the GCG administration team proxy. Nuryaman (2008) uses the proportion of independent commissioner to the total number of the company's board of commissioner. Based on the prior studies, the authors suggest that the proxy of GCG administration team is not merely consist of independent commissioner and audit committee. The comprehensive GCG organization structure involves independent commissioner, remuneration committee, audit committee, legal committee, compliance committee, mitigation committee, and corporate secretary. In 2001, Bapepam issued a guidance regarding the composition of GCG organization board, which consist of at least 3 parties: independent commissioner, audit committee, and company secretary.

Ownership concentration is measured using independency of public ownership that is published by Bureau van Dijk Electronic Publishing. This is, as far as authors aware, among the first to use the variable in GCG research in Indonesia. Previously, the ownership concentration is usually measured using managerial and institutional ownership (Midiastuty & Machfoedz, 2003; Wedari, 2004; Siregar & Siddarta, 2006; Herawaty, 2008), and ultimate ownership (Siregar, 2008).

2. Theorethical approach

2.1 Net Profit.

Net profit is an instrument to measure the company's operational performance. It measures the success or failure of a business in achieving target of its operation (Parawiyati, 1996). Financial report is one of the signals from the company for external parties. *Statement of Financial Accounting Concepts* (SFAC) No. 1 (1978) stated that the main user of financial report are investors and creditors, and it indicates that the main focus of financial report is the information about the company's profit. *Statement of Financial Accounting Concepts* (SFAC) No.1 (1978) also stated that the financial report should deliver useful information for the investors and creditors, both existing and potential ones, in deciding the policy of investment, credit, and other decisions. Investor and creditor use the profit to: (a) Evaluate the management performance. (b) Estimate the *earning power*. (c) Predict the future profit. (d) Assess the investment risk or the company's loan (SFAC no.1).

Creditors can use the net profit information to make a loan decision and to asses the credit risk. The use of net profit to assess securities has been conducted in many stock exchanges (Ball dan Brown, 1968; Beaver dan Dukes, 1972; Sloan, 1996). Sloan (1996) evaluates the information content in terms of accrual and cash flow components. He tries to see whether or not the information is reflected in the stock price. Sloan (1996) also shows that the stock price will react if the investor '*fixate*' (believe) on the profit. Sloan's research (1996) was consistent with the fixation of profit by some of stock market participant on the total reported profit without considering the size of accrual and cash flow components. Mispricing phenomenon which was shown in Sloan's (1996) research indicates that there is a tendency of over-focussing on the reported profit in the stock exchange.

Carslaw and Kaplan (1991) found that companies that show negative profit request their auditor to schedule the audit process quite late than the supposed schedule. This leads to delay of financial report. The research argues that a company will tend to pospone its financial report if there is a 'bad news' in its report because it will affect the profit quality. A company which has good (high) profitability can be said as having a 'good news' in its financial report. As a consequence, a company which has a 'good news' tend to submit its financial report on time, and vice versa.

2.2. *Corporate Action*

Corporate action is the actions taken by a company which is announced to public. This is a reflection of a good administration and public transparency on the non-financial aspect. In this term, corporate action - both national and multi national company - will also affect the stock price. *Bureau van Dijk Electronic Publishing* (2008) states that a complete format of c*orporate action* included all values, consists of: *company meeting, listing status change, announcement, preferential offer, bonus, new listing, buy back, issuer name change, preference conversion, local code change, arrangement, security description change, international code change, take over,* etc.

2.3. GCG Team in Organization Structure

Total number of member of GCG organization structure can be taken as the completeness of organization structure as an implementation of GCG principal which was required by the regulator. This variable is chosen considering the possibility of incomplete GCG organization structure existence, for example merely director and commissioner. Some countries have similar requirements to be implemented in GCG. The requirements are independent commissioners, audit committee, remuneration committee, nomination committee, compliance committee, legal committee, and risk committee. In Indonesia, according to Bapepam guidelines in 2001, the completeness of GCG organization structure consist of independent commissioners, audit committee, and company secretary.

Some research show that there is an effect of size and composition of board of director in company activities. The size and composition of board of director can affect the effectivity of monitoring activity. The size and composition of *board of director* also affect the relationship between managerial ownership and institutional ownership on the company's performance. According to Pfeffer (1973) the increase in size and diversity of *board of director* will benefit

the company since it will expand the network and guarantee the availability of resources.

Fama and Jensen (1983) stated that by including *outside directors,* the performance of the board will improve and it can minimize the management expropriation to the shareholder's welfare. In doing so, audit committee facilitates a formal telecommunication between the board, management, external and internal auditor (Bradbury et al., 2004). Audit committee acts as the mediator when disputes occur between the management and auditors on the interpretation and implementation of generally accepted accounting principles (Klien, 2002). Anderson *et al*. (2003) investigated the relation between the characteristics of commissioners, financial report integrity, and the *cost of debt*.

2.4. Public Ownership

Problems of ownership concentration in Indonesia indicate the agency problem between the dominant and minority stock owners occurs because of the separation between the cash flow right and control right (Siregar, 2008). This is different with a study by Jensen and Meckling (1976) that separates ownership and control. Machfoedz (2008) states that shareholder voice function indicates that commissioner is also responsible to increase the voice of owner (investors) to increase the company's value. Claessens *et al.*(1999) defined the expropriation as a process which is used by the controlling share holder to maximize their own wealth or redistribute the wealth from other parties through the controlling power. Claessens *et al.* (1999, 2000) studied the expropriation of minority share holder in public companies in nine Asian countries by investigate impact of differentiation of cash flow and control rights to the company's value, and observing the ownership structure of companies.

Pyramid ownership and cross ownership are two most common mechanism used by the controlling shareholder to increase the control exceeds the financial claim to the company. The concentrated ownership may relate to low level of law enforcement (La Porta *et al.*, 1998 dan 2000). The results of La Porta *et al*. (1998) study may be understated due to the use of direct ownership data, not the ultimate ownership. By adopting La Porta *et al* (1999) methodology, Claessens *et al.*, (1999, 2000) studied the controlling share holder which consist of individual, family or institution which have control in a company, both definite and indefinite, at the cut-off level of certain privileges. In regard to ownership concentration, Morck *et al.* (2004) argue that the majority share holders which effectively control the company will also control the reported accounting information. La Porta *et al.* (2002) and Claessens *et al.* (2002) found that the ownership concentration in *cash flow rights* will increase the company's value.

2.5. Quality of Audited Financial Report

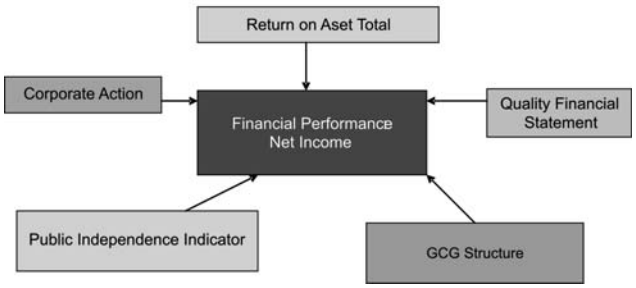
Public accountant is one of the most important parties to produce a qualified financial report for the stock exchange. Public accountant's role is to provide assurance that financial report made by the management is free of material misstatement. The assurance is given by the public accountant through their opinion. According to PSA 29 SA article 508 in 'Standard of Public Accountant Profession' there are five categories of public accountant's opinion: (1) *unqualified opinion*; (2) *unqualified opinion with explanatory language*; (3) *qualified opinion*; (4) *adverse opinion*; and (5) *disclaimer opinion*. Carslaw and Kaplan (1991) stated that lateness in financial report positively related with audit opinion. Companies receiving other than *unqualified opinion* tend to have longer *audit delay* or tend to give their financial report not in the expected time frame. On the other hand, companies that obtain *unqualified opinion* from the auditor tend to submit their financial report on time.

2.6. Hypothesis

Gleaned from the literatures mentioned above, the current research proposes research model as shown in Figure 1.

Net Profit for each country = a + b_1Public Ownership + b_2 Number of GCG structure + b_3 Corporate Action + b_4 Quality of Audited Financial Report + b_5 Return of Total Assets + e

Research Model



Based on the research model, the hypothesis is formulated as follows:

H1: *Corporate Actions*, public ownership, the number of GCG structure, quality of audited financial report, and return of total assets influence net profit in information and telecommunication technology companies in Indonesia.

3. Research Methodology

3.1. Sample and Population

The data population of this research is annual report of telecommunication and technology companies registered in the stock exchange in Indonesia year of 2005, 2006, and 2007. Samples are selected using the following criterias: (1) The companies are registered in stock exchange; (2) Industry classification: telecommunication and technology industry, based on *Industry Classification Benchmark* (ICB), and (3) The closing of accounting period is 31 December. The totals of 38 samples were finally collected.

3.2. Variables

Dependent variable in the current study is net profit (logged). Meanwhile, *independent variable*s are as follow:

a. Indicator of public ownership independency by Bureau van Dijk Electronic Publishing.
b. Corporate action.
c. Quality of audited report.
d. Return on Total Asset
e. Total number of GCG organization structure

These variables are then operationalized as:

a. Net profit is the profit after the annual tax.
b. Number of telecommunication and technology companies is the total number of telecommunication and technology companies in each country.
c. Independency indicator by Bureau van Dijk Electronic Publishing (BvDEP). According to OSIRIS Data Guide (2003), BvDEP ownership indicators are: A+, A, A-, B+, B, B-, C+, C, C-, D, and U. The highest level '11' is equal to A+, while the lowest level '1' is equal to 'U' (*unknown*). The indicator of independency is used to help the users in identifying independent companies by marking their degree of independency based on the shareholders. The 'A' indicator will be company with non-registered owner less than 24,99%, both direct and total ownership. BvDEP classifies further the A level into A+, A, and A-. The 'B' indicator is given to company with percentage of registered ownership, both direct and total ownership, no more than 49,99%, but has one or more shareholders with more than 24,99% ownership. BvDEP also classified this grade into B+, B, and B-. The 'C' indicator is provided to company with registered ownership, either direct or total, more than 49,99%. The 'C' indicator indicates an *ultimate ownership*. The 'U' indicator is assigned to company which is not belong to A, B, or C, categories, which indicated an unknown degree of independency.
d. Corporate action is activity conducted by the company and announced to public which can be regarded as company transparency and good administration from nonfinancial aspect. Corporate action that can be both national and international level may influence the share price. Corporate action is measured by the number of activities published or announced to public (ratio scale).
e. Quality of audited report is level of opinion of audited financial report, where score 4 for unqualified opinion, score 3 for unqualified opinion with explanatory paragraph, score 2 for no opinion, and score 1 for unaudited.

f. GCG organisation structure is the completeness of organisation structure as the implementation of GCG which is required by the regulator. Each country has similar requirement to be implemented in GCG for instance independent commissioners, audit committee, remuneration committee, compliance committee, nomination committee, legal committee, and risk committee.

4. DATA ANALYSIS

In this stage, there are some tests performed: normality, multicollinearity, heteroscedasticity, and autocorrelation. To handle outlier data, *missing value-exclude cases listwise program was* performed using SPSS. Before testing the hypotheses, the data is firstly tested in terms of data model regression feasibility, *overall model fit*, and regression coefficient. The results show that no problem found from these tests.

The average score for corporate actions in Indonesia (2005-2007) is 16.71. The quality of audited financial report indicates an average of 3.88, with 0.612 standard of deviation. It means that almost all data are near unqualified opinion. The value of public ownership variable in Indonesia is 3.13. The value of 3 is equivalent to C- and 4 is equivalent to C. The return of total assets in Indonesia is 6.6038. Interestingly, the number of organization structure as part of GCG completeness shows an average of 1 with deviation standard is 0.00. This means that all the telecommunication s and technology companies in Indonesia has only 1 GCG organization structure. Summary of statistic results for Indonesia is presented in Table 1.

Table 1: Summary of statistic results for Indonesia

Variable	Descriptive Statistics			Model Summary		ANOVA		Coefisien Coef.Unstand.			
	Mean	Std. Dev.	N	Adj. R^2	Stand Err of the est.	F	Sig	B	Std. Error	T	Sig
Net income	3,558	1,343	24	0,706	0,728	14,781	0,00	4,632	1,035	4,476	0,000
Corp.Action	16,71	7,515	24					-0,059	0,025	-2,351	0,030
Financial Statement Quality	3,88	0,612	24					-0,339	0,249	-1,360	0,190
Independence	3,13	3,288	24					0,394	0,080	4,921	0,000
RoTA	6,6308	7,555	24					-0,001	0,031	-0,043	0,966
GCG Structur	1	0,00	24					-	-	-	-

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The return of total assets in Indonesia is 6.6038. Interestingly, the number of organisation structure as part of GCG completeness shows an average of 1 with deviation standard is 0.00. This means that all the communications and technology companies in Indonesia has only 1 GCG organisation structure. The regression result s show value of *Adjusted R Square* of 0.706. ANOVA test shows that F score is 14.781 with 0.000 level of significance. It means the model is significant. The whole independent variables affect the net profit. Results of regression analysis show that public ownership and corporate actions variables influence net profit in telecommunication and technology companies in Indonesia. However, the impact of quality of audited report and return of total assets on net profit are not significant.

Corporate action is activity conducted by the company and announced to public which can be regarded as company transparency and good administration from nonfinancial aspect. Corporate

action that can be both national and international level may influence the share price. Public ownership in identifying independent companies by marking their degree of independency based on the shareholders.

5. Summary

Summary of analysis results for Indonesia is presented in Table 2.

Table 2: Analysis Summary

Location	Corporate Action	Financial Statement Quality	Independence	Return on Total Aset	GCG Structure
Indonesia	√	-	√	-	-▓

√ = influenced

▓ = deleted because standard deviation is 0.00

In Indonesia, the regression analysis using four dependent variables suggest that public ownership and corporate actions variables significantly influence net profit achievement.The study of GCG implementation in telecommunication and technology companies in Indonesia shows structure of GCG variable excluded from the independent variables since its standard of deviation is 0.00. The regression analysis using four dependent variables suggest that public ownership and corporate actions variables significantly influence net profit. Finally, the current research contributes in developing the GCG organization structure variable, especially in the context of telecommunication and technology companies in Indonesia. The variable is development of more comprehensive proxy that includes independent commissioners, remuneration committee, audit committee, legal committee, compliance committee, mitigation committee, and corporate secretary.

Stucture of GCG is very important for corporate performance, but in communication and technology industry sector in Indonesia with 2005 – 2007 periods need to improve. Finally, the current research contributes in developing the GCG organisation structure variable, especially in the context of communication and technology companies in Indonesia. The development of more comprehensive proxy is an improvement of proxies of GCG completeness that are previously developed, for instance, by Wedari (2004), Herawaty (2008), and Nuryaman (2008). In the current study, the more comprehensive proxy for GCG organisation structure consists of independent commissioners, renumeration committee, audit committee, legal committee, compliance committee, mitigation committee, and corporate secretary.

There are some opportunities for future research. Instead of the total number of board of commissioners member, further research may use the proportion of total number of GCG organisation structure with the total number of board of directors and commissioners. Public ownership variable can also be developed further on the basis of types of the shareholders origin, which are domestic and foreign shareholders. In addition, ownership based on institutions (government institutions, private institutions or others) can also be further investigated. This will deeply enhance the understanding on shareholders structure.

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Tabel 3 : Data Tahun 2007

Nama Perusahaan	Deskripsi Operasional	Koda perusahaan	Independence	Audit Status	Corporate Action	GCG	ROA	NI
PT TELEKOMUNIKASI INDONESIA TBK	Fixed Line	6535	A+	Unqual	20	1	31.19	1368860
PT INDOSAT TBK	Telecommunications Mobile	6575	B+	Unqual	28	1	6.47	217412
PT EXCELCOMINDO PRATAMA TBK	Telecommunications Mobile	6575	D	Unqual	10	1	2.75	26700
METRODATA ELECTRONICS TBK	Telecommunications Computer Hardware	9572	U	Unqual	12	1	8.57	3032
PT BAKRIE TELECOM TBK	Mobile	6575	D	Unaudited	15	1	4.71	15360
MOBILE-8 TELECOM TBK	Telecommunications Mobile	6575	U	Unqual	5	1	1.25	5360
INFOASIA TEKNOLOGI GLOBAL TBK	Telecommunications Fixed Line	6535	U	Unqual	15	1	3.26	1588
CENTRAL KORPORINDO INTERNASIONAL TBK.	Telecommunications Computer Services	9533	U	Unqual	28	1	0.34	159
NUSANTARA INFRASTRUCTURE TBK	Computer Hardware	9572	D	Unqual	16	1	-0.76	100
CENTRIN ONLINE TBK	Internet	9535	D	Unqual			16.94	1682
DYVIACOM INTRABUMI TBK	Internet	9535	D	Unqual			0.88	137
MYOH TECHNOLOGY TBK	Software	9537	U	Unqual			-17.88	-191
INDOEXCHANGE TBK	Internet	9535	A	Unqual			-264.46	-596