THE EFFECT OF GOOD CORPORATE GOVERNANCE ON DISCLOSURE OF ANTI-CORRUPTION POLICY IN STATE-OWNED BUSINESS ENTITIES

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Abstract

This study analyzes the effect of Good Corporate Governance (GCG) and company characteristics on the tendency to disclose anti-corruption policies in Indonesian companies. This study aims to re-examine the factors that influence the tendency of companies to disclose anti-corruption policies in the context of companies that exist in Indonesia and are listed on the Indonesia Stock Exchange (IDX). The influence of good corporate governance itself is described through the proxies of good corporate governance, namely institutional ownership, audit committees and independent commissioners as benchmarks in this study.

Keywords: good corporate governance, anti-corruption disclosure, state-owned business entities

INTRODUCTION

At present the business world in Indonesia is not only oriented towards only on its financial performance but also need to demonstrate efforts to increase credibility and commitment to clean and ethical business practices. However, in reality, rapid business development is often not balanced with good internal control. The rise of corruption cases that ensnared companies in Indonesia is evidence of the weak governance function in the company.

Corruption is still a serious problem in Indonesia. Based on information obtained from the Transparency International website, in 2017 Indonesia obtained a Corruption Perception Index score of 37 and was ranked 96th out of 180 countries in 2017. This relatively low ranking indicates that the level of corruption is still high in Indonesia. Based on data from the website https://acch.kpk.go.id, it shows that corruption mostly ensnares members of the DPR and DPRD as well as the private sector. The existence of corruption cases involving high-ranking State-Owned Enterprises (BUMN) has also been in the spotlight.

Research issues

The KPK conducted an OTT against one of the directors of PT Krakatau Steel (KRAS) in March 2019, namely the Director of Technology and Production of PT Krakatau Steel Wisnu Kuncoro in the alleged bribery case for the procurement of goods and services at PT Krakatau Steel. Furthermore, in the case of the smuggling of a Harley Davidosn motorcycle and a Brompton folding bicycle, Erick dismissed 4 directors who were involved in the illegal luxury goods smuggling. The scandal involved the President Director of Garuda Indonesia, Ari Askhara. Three other directors were involved, namely Director of Engineering and Services Iwan Joeniarto, Director of Cargo and Business Development Mohammad Iqbal, and Director of Human Capital Heri Akhyar. Corruption is a common enemy because it has the impact of losses both financial and non-financial and can threaten the survival of the company. Therefore, to minimize unethical business practices, a mechanism called Good Corporate Governance is needed. Good Corporate Governance (GCG) as a form of internal control really needs to be done to minimize all forms of deviant behavior in the company, including acts of corruption. According to Widyatama (2014) GCG is a concept that must be implemented by companies in order to minimize the form of inequality between managers and investors. GCG can be used as a tool to prevent corruption because through the application of the principles of responsibility and transparency, it is the main key to creating information disclosure in the company. One of the information highlighted is the disclosure of anti-corruption policies in the company. Disclosure of anti-corruption policies is a form of voluntary disclosure that represents the company's commitment to fighting corruption. Disclosure of anti-corruption policies is very necessary so that stakeholders know the company's efforts in creating an ethical business and efforts to protect the interests of all its stakeholders. The anti-corruption program describes policies including the prohibition of bribery, anti-gratification, cooperation with the KPK to fight gratification, and. establish and implement a whistleblowing system.

Literature

Corruption, Collusion and Nepotism

Sumartana stated that corruption, collusion and nepotism (KKN) are the product of lame and inhuman socio-political and economic relations. This shows that KKN arises from habits that occur in society with social differences in certain circles coupled with complicated government and bureaucratic politics and the difficulty of community economic growth. Normatively, it can be seen that the act of enriching a corporation through certain authorities and positions is an act against the law in the form of a corrupt act. If it is related to the industrial and business sectors, in general the collusion referred to here can be interpreted as an act of hidden cooperation between companies and other companies as well as between companies and policy makers and/or organizers. This collusion can be related to various things, including cooperation in the succession of a project between companies that actually only benefits certain people with risks that are possible for the company to accept on an overall scale with several responsibilities. In the corporate world, nepotism in general can be defined as the election or appointment of certain people (with consideration of close or relative relationships) to obtain certain positions or jobs, both which benefit the elect/elected person and the corporation as a whole.

Good corporate governance

According to UNDP, there are three models of good governance, namely:

Political governance which refers to the processes of making various decisions for the formulation of strategic policies (policy strategy formulation), Economic Governance (Economic Governance) which refers to the process of policy making (policy making process) that facilitate domestic economic activity and interaction among economic actors. This economic governance has implications for equity issues, poverty reduction, and improvement of quality of life and Administrative Governance which refers to the policy implementation system. Sedarmayanti (2003) states that *good governance* is the process of implementing state power in implementing the provision of *public goods and services*. To realize *good governance*, one of the elements that must be fulfilled is the commitment of all members in the organizational unit/institution in realizing clean governance, prioritizing and considering the elements of effectiveness, efficiency and economy in providing excellent service to the public.

There are several opinions regarding the principles of *good governance*, UNDP (1997)) in Sedarmayanti (2004:5) points out that the characteristics or principles that must be adopted and developed in practice the implementation of good governance, is included:

a) **Participation**
b) **Rule of Law**
c) **Transparency**
d) **Responsiveness**
e) **Oriented**
f) **Fair** *(Equity)*
g) **Effectiveness and Efficiency**
h) **Accountability**
i) **Strategic vision**

Agency Theory

theory was first stated by Jensen and Meckling in 1976 in Warsono et al. (2009). Jensen and Meckling refer to the managers of a company as "agents" and shareholders as "principals". Shareholders delegate business decision making to managers who are agents or representatives of shareholders. The problem that then arises is that the agent does not always make decisions that aim to meet the best interests of the principal. This may result in managers' tendency to focus on projects and investments that generate high returns in the short term rather than maximizing shareholder wealth through investing in profitable projects in the long term. In addition, another problem that may arise is the existence of asymmetric information where agents generally control more detailed information about the company's performance than the principal. The agency theory literature shows several solutions to agency problems, including the formation of optimal contracts, both related to manager remuneration and debt contracts. The existence of these contracts will then incur costs called agency costs.

Transaction Cost Theory Transaction cost

theory was first proposed by Williamson in 1996 in Warsono et al. (2009). This theory is based on the fact that firms have become so large that, as a result, they take advantage of the market in determining the allocation of resources. Thus, price movements in the market will determine production and the market itself which coordinates transactions. The company's management has an interest in internalizing as many transactions as possible in order to minimize risks and uncertainties regarding prices and product quality in the future. This can be done through vertical integration. This kind of opportunistic behavior may have unfavorable consequences for the company's finances because it does not encourage potential investors to invest. So far, there are similarities between transaction cost theory and agency theory. Both are trying to overcome the same problem, namely how companies encourage managers to align their interests with the interests of shareholders. And in this case, the principles of *good corporate governance* act as a solution to these problems.

Stakeholder Theory

theory has developed gradually since the 1970s. Freeman, 1984 (Warsono, et al., 2009) proposes a general theory of the company that includes corporate accountability to stakeholders. The basis of the stakeholder theory is that companies have become very large, and have caused society to become very pervasive, so that companies need to carry out their accountability to various sectors of society and not only to their shareholders. The relationship between the company's stakeholders in turn will cause not only the company that affects the stakeholders, but on the contrary, the stakeholders will influence the company. Balancing the needs and interests of different stakeholder groups is difficult. On the other hand, companies that have bad relationships with their stakeholders generally have poor management characteristics and result in poor financial performance as well.

Disclosure of Anti-Corruption Policies Anti-corruption

policies are reflected in the disclosure of Corporate Social Responsibility (CSR) activities in sustainability reports that are reported by the company every year. Nor Hadi (2011) in his book explains that CSR is a form of action that departs from the company's ethical considerations that are directed at improving the economy, which is accompanied by improving the quality of life for employees and their families, as well as improving the quality of life of the surrounding community and society more broadly.

The Effect of Institutional Ownership On The Disclosure of Anti-Corruption Policies

institutional ownership describes the proportion of share ownership of other parties or other companies (third parties) which can be in the form of banks, investment companies, and other institutional ownership. Institutional ownership can be a tool that can reduce agent conflict because it has the ability to control management through the monitoring process (Jensen and Meckling, 1976). With the existence of institutional ownership itself requires management to perform well to the shareholders. This is because shareholders have the opportunity to monitor the company's management, so that management will act more carefully in carrying out company activities. In the research of Tirtasari and Hartomo (2019), the higher the institutional ownership, the higher the tendency of companies to disclose anti-corruption policies.

H1: The higher the level of institutional ownership, the higher the level of disclosure of anti-corruption policies in the company.

The Influence of The Audit Committee on The Disclosure Of Anti-Corruption Policies

Kartika and Sudarno (2014) in Utami, Handajani and Hermanto (2019) stated that the independent audit committee has a significant effect on fraud. Basically the audit committee is in charge of controlling and supervising the process of preparing the company's financial statements, which will be presented to the board of commissioners, with the aim of reducing the potential for fraud in a company. If the function of the audit committee runs effectively in a company, the potential for fraud that will occur in the company will be smaller as well as the potential for corruption.

H2: The higher the number of competent Audit Committees, the higher the level of disclosure of anti-corruption policies in the company.

Influence of the Board of Commissioners on the disclosure of anti-corruption policies

The existence of a separation between the board of commissioners and the board of directors is expected to be a way to avoid the dualism of CEO leadership. Independent commissioners have a role in monitoring the company's performance so that good corporate governance runs well in the company. Sembiring (2005) in Utami and Rah Mawati (2010) states that the greater the number of members of the board of commissioners, the easier it is to control the CEO and the more effective the supervision will be. In the research of Tirtasari and Hartomo (2019), it is stated that the higher the independence of the Board of Commissioners, the higher the tendency for companies to disclose anti-corruption policies.

H3: The higher the level of independence of the Board of Commissioners, the higher the level of disclosure of anti-corruption policies in the company.

Discussion

The higher the level of institutional ownership, it is expected that the level of disclosure of anti-corruption policies in the company will be higher because the existence of institutional ownership itself requires management to perform well towards stakeholders, so that management will take more careful action in running the company because the company will be monitored. by stakeholders. The number of competent audit committees will increase the disclosure of anti-corruption policies in the company. This reveals that the function of the audit committee is running effectively in a company, so the potential for fraud that will occur in the company will be smaller as well as the potential for corruption. In other words, the higher the audit supervision in the company, the higher awareness of anti-corruption attitudes. The higher the level of independence of the Board of Commissioners, the level of disclosure of anti-corruption policies in the company will be higher, because the separation between the board of commissioners and the board of directors is expected to avoid dualism in the leadership of the CEO. Independent commissioners have a role in supervising the company's performance so that with this supervision it is expected that good corporate governance will run well in the company.

Conclusion

Anti-corruption awareness has advanced in the last decade. Corruption is seen as something to be avoided because of its damaging effects on the state, industry and the livelihoods of citizens. Then, the private sector view on corruption changed and anti-corruption efforts were seen as an integral part of good corporate governance. For companies, the challenge of dealing with corruption lies in the differences in the quality of institutions between countries. This creates a lot of problems for companies that want to remain accountable and transparent in an environment with weak laws.

At present, the company's most concern is the idea of ethics and unifying corporate governance reform and anti-corruption initiatives. With the creation of good corporate governance, it is hoped that awareness of anti-corruption attitudes can be increased.

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