

## Corporate governance

### PROMOTING SOUND CORPORATE GOVERNANCE PRACTICES

- ▶ As the end-2015 deadline for the ASEAN Economic Community approaches, there is an urgent need for Indonesia to improve its corporate governance.
- ▶ Sound corporate governance will reassure stakeholders that their rights are protected, thus building confidence and trust in doing business in Indonesia.
- ▶ Indonesia has introduced a legal and regulatory framework on corporate governance, but further work is needed: Disclosure of beneficial ownership and control in listed companies should be improved, public enforcement strengthened and board nomination and election processes enhanced.

#### What's the issue?

Corporate governance is about the relationship between a company's management, its board, its shareholders and other stakeholders. It provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined.

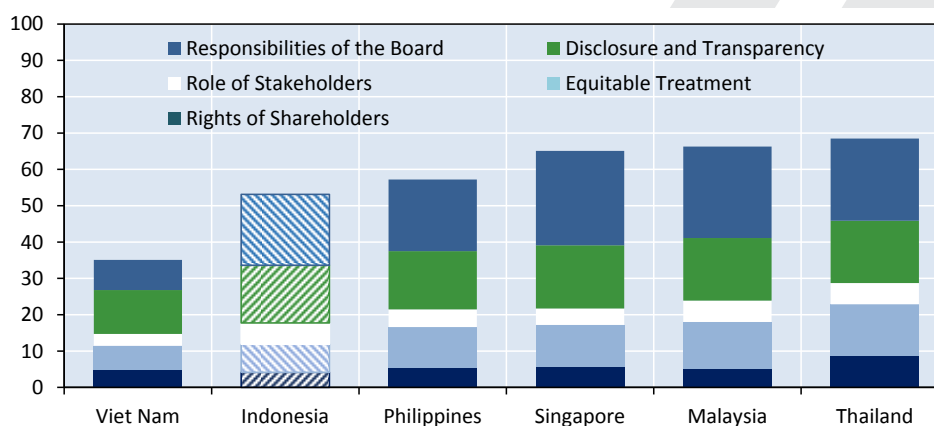
Poor corporate governance was identified as a major factor in Indonesia's economic crisis in 1997. Since then a wide range of laws and regulations have been introduced and standards developed. A corporate governance infrastructure has been built, including national corporate governance committees, an institute of directors and other institutions. Awareness of the OECD Principles of Corporate Governance is now high in

Indonesia, which uses them as reference in developing its regulation, corporate governance codes and listing rules, amongst others.

Indonesia has also recently reformed its financial services sector supervisory framework with the establishment of the Financial Services Authority (OJK). One of the main objectives is to develop a financial system that is fundamentally sound, sustainable and capable of protecting the interests of the public. Building investor confidence in financial markets depends largely on the existence of an accurate disclosure regime that provides transparency in the beneficial ownership and control structures of publicly listed companies. Ensuring robust public enforcement

#### Indonesia's corporate governance practices score lower than those of its ASEAN peers

Corporate governance scores, 2013



Note: A lower score implies weaker governance.

Source: ADB (2014), ASEAN Corporate Governance Scorecard, Country Reports and Assessments 2013-2014.

is also important, but often the most challenging aspect of the regulator's role. Whether shareholders can effectively participate in the board nomination process is another key challenge.

However, Indonesia has room to further improve its corporate governance practices. In comparison to its ASEAN peers, Indonesia could make additional progress in particular with respect to board responsibilities, transparency and disclosures as well as the equitable treatment of shareholders (see Figure).

### Why is this important for Indonesia?

By the end of 2015, Indonesia will be part of the ASEAN Economic Community. There is thus an urgent need to improve business practices in Indonesia in order to make Indonesia more attractive to investors. Raising the bar on corporate governance practices can achieve this objective and the implementation of sound corporate governance practices of listed companies in Indonesia is now a top priority for the authorities.

The quality of corporate governance affects the cost for corporations to access risk capital for growth and the confidence with which households – directly or indirectly – can participate and share in their value-creation on fair and equitable terms. This is of significant importance in today's globalised capital markets. If companies are to attract long-term capital, corporate governance arrangements must be credible, well understood across borders and adhere to internationally accepted principles.

Even if corporations do not rely on foreign sources of capital, a credible corporate governance framework, supported by effective supervision and enforcement mechanisms, will help improve the confidence of domestic investors, reduce the cost of capital, facilitate their access to the equity market, and ultimately induce more stable sources of financing. The implementation of sound corporate governance practices is a critical contribution to achieve this goal, which will lead to improved economic performance and sustainable economic growth.

### What should policymakers do?

- ▶ Reinforce OJK's efforts to strengthen public enforcement of corporate governance requirements.
- ▶ Enhance the regulatory framework, information, disclosure, and enforcement of beneficial ownership and control in listed companies.
- ▶ Enhance board independence, clarify fiduciary duties of board members and ensure equitable treatment of shareholders.
- ▶ Improve shareholder participation and transparency of the board nomination and election process.



### Further reading

OECD (2014), *Public Enforcement and Corporate Governance in Asia: Guidance and Good Practices*, OECD Publishing. <http://www.oecd.org/daf/ca/Public-Enforcement-Corporate-Governance-Asia.pdf>

OECD (2013), *Better Policies for Board Nomination and Election in Asia*, OECD Publishing. [http://www.oecd-ilibrary.org/governance/better-policies-for-board-nomination-and-election-in-asia\\_9789264204386-en](http://www.oecd-ilibrary.org/governance/better-policies-for-board-nomination-and-election-in-asia_9789264204386-en)

OECD (2012), *Policy Options for Improving Disclosure of Beneficial Ownership and Control in Indonesia*, OECD Publishing. [http://www.oecd-ilibrary.org/governance/disclosure-of-beneficial-ownership-and-control-in-indonesia\\_5k43m4pdrj36-en](http://www.oecd-ilibrary.org/governance/disclosure-of-beneficial-ownership-and-control-in-indonesia_5k43m4pdrj36-en)

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OECD (2011), *Reform Priorities in Asia: Taking Corporate Governance to a Higher Level*, OECD Publishing. <http://www.oecd.org/corporate/ca/49801431.pdf>

