



Corporate Governance and Responsibility

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Outline

- Overview of IICD
- Overview of Board Leadership Training Resources Program
- Relation between Corporate Governance (CG) and Corporate Responsibility (CR)
- Evidence on CG and CR
- Drivers of Strategic CR



Overview of IICD



Overview of Indonesian Institute for Corporate Directorship (IICD)

- A foundation established in year 2000 by 10 business schools in Indonesia
- Mission: Internalizing good corporate governance practices in Indonesia and in the South-East Asia region
- Currently, chairman of the Institute of Directors East Asia Network (IDEA.Net)
- Activities: membership development, training programs, consulting and research grants



Domestic Collaboration

- Regulators:
 - Securities Commissions(BAPEPAM-LK)
 - Central Bank (BI)
 - Indonesian Stock Exchange (IDX/BEI)
- Association of Listed Companies in Indonesia (AEI)
- National Bank Association (PERBANAS)
- Association of Internal Auditors (IAI)



International Collaboration

- Members of IDEA.Net
- Global Corporate Governance Forum – IFC
 - Training of Trainers, Training Materials Development, Mentoring
- Center for International Private Enterprises
 - CG Scorecard
- Organization for Economic Cooperation and Development (OECD)
 - Asian Roundtable on CG
 - Taskforces
- World Bank - ROSC Corporate Governance
- ADB - ASEAN Capital Market Linked Project



IICD/IDEA.Net – Forum Collaboration in the Past Four Years

- Developing training resource materials (as part of the Financial Market Recovery Project)
 - Contextualizing Board Leadership Resources and its supplement to the banking sector in Indonesia (July 2010 – May 2011)
 - Developing Caselets for the banking sector in Indonesia (March 2011-May 2011)
- Enhancing capacities of trainers/facilitators of IICD/IDEA.net members byn delivering training workshops
 - Training of Trainers: Oct 2008, Oct 2010 (for banks), June 2011
- Enhancing the capacity of IICD as an Institute of Directors
 - Mentoring/Coaching



Institutes of Directors in East Asia Network (IDEA.Net)

- Established in year 2000 by MOU
- Members: China, Chinese Taipei, Hong Kong, Indonesia, Malaysia, Philippines, (MICG/MACD), Singapore, South Korea and Thailand
- A common mission to advance good corporate governance practices in the region



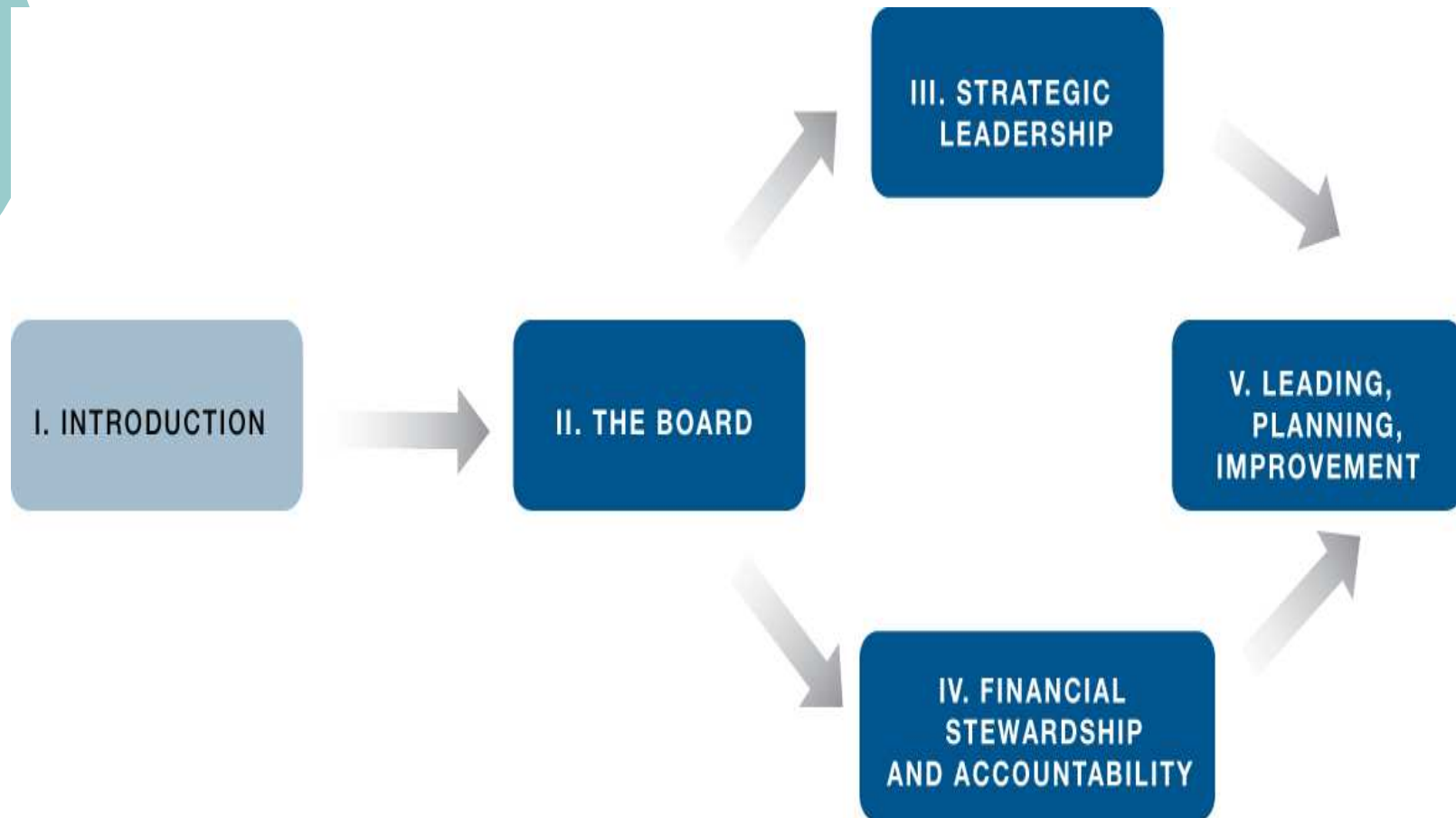
Overview of Board Leadership Resources Training Program



Program Goals

- Improve understanding of corporate governance and board director responsibilities
- Develop the competencies directors require to implement responsible corporate governance practices
- Share director experiences and build networks with peers

Corporate Governance Board Leadership Training Resources Kit: Structure





Part 1: Introduction To Corporate Governance

- Module 1 – Corporate Governance
- Module 2 – The Business Case for Corporate Governance
- Module 3 – Disclosure and Transparency
- Module 4 – Shareowners and Stakeholders



Part 2: The Board

- Module 1 – Board Role, Director Duties and Liabilities
- Module 2 – The Effective Board: Composition and Structure
- Module 3 – Board Practices
- Module 4 – Board Procedures



Part 3: Strategic Leadership

- Module 1 – The Governance Of Strategy
- Module 2 – Evaluating Strategy Delivery And Executive Director Performance
- Module 3 – The Governance Of Risk
- Module 4 – Corporate Responsibility



Part 4: Financial Stewardship and Accountability

- Module 1 – Financial Oversight
- Module 2 – Reporting
- Module 3 – Corporate Finance
- Module 4 – The Control Environment



Part 5: Leading, Planning and Improvement

- Recognize leadership requirements and describe processes to mobilize support and lead change
- Explain the benefits of improvements in corporate governance practices
- Develop plans to implement corporate governance change within companies - recognize the need for collective rather than individual action
- Build support networks and use mechanisms to assist in implementing change



Relation between CG and CR



GCG and Corporate Responsibility

OECD Principles of Corporate Governance

- **Protecting** shareholder rights
- The **equitable** treatment of shareholders, including minority shareholders
- Recognizing the rights of key **stakeholders** and encouraging **active co-operation** between corporations and stakeholders
- Ensuring timely and accurate disclosure is made on all material matters of the company
- Effective **monitoring** of management by the board, and board **accountability** to the company and its key shareholders



IICD Study: Average Corporate Governance Scorecard of Listed Companies (2008/2007)

GCG PRINCIPLES	CURRENT STUDY	PREVIOUS STUDY
Rights of Shareholders	50.60%	50.37%
Equitable Treatment of Shareholders	87.76%	86.35%
Role of Stakeholders	65.73%	63.64%
Disclosure & Transparency	72.76%	70.01%
Responsibility of Boards	60.68%	59.09%
Overall Performance	66.50%	64.96%



Public Goals of Business Entities

- Short-term profits vs sustainable profits
- Aligning the interests of a company, its key shareholders and society
- Integrate relevant environmental and social concerns into corporate strategy (i.e. strategic CSR)
- Role of the Board of Directors in executing the strategy and achieving the public goals



Business Case for GCG and CR

- Strong positive correlation between CG practice and company value
- Only strategic CR has a positive impact on company value
- Strategic CR:
 - Increased reputation (higher price premium)
 - Reduced regulatory and legal risks
 - Lower costs



CR: Evidence in Indonesia

- The company law requires companies to perform CR and report the activities in the annual report
- Majority of companies conduct CR and disclose them in the annual report/ website.
- A small number of companies provide sustainability reporting
- Overall, the trend is positive

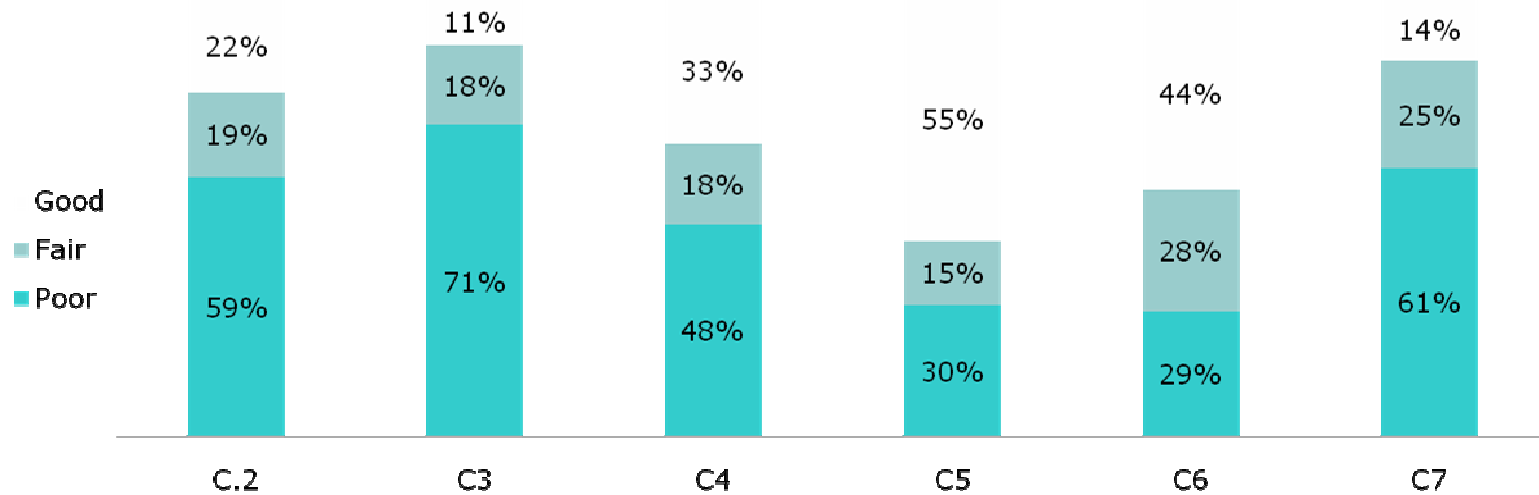


What is the Evidence in Indonesia?

- Violation of environmental related regulations is rampant
 - Illegal logging, air and water pollution, etc.
- CR disclosure role of key stakeholders is relatively inadequate

IICD Study: Stakeholders Role's Performance Overall Score: 63.64%

Role of Stakeholders (C2 - C7)



Questions:

- C. 2. Does the company explicitly mention the role of customers?
- C. 3. Does the company explicitly mention the role of suppliers?
- C. 4. Does the company explicitly mention the obligation of shareholders?
- C. 5. Does the company explicitly mention its broader obligations to society and/or the community?
- C. 6. Does the company explicitly mention its obligation to creditors?
- C. 7. Does the company explicitly mention environmental issues in its public communication?



Evidence on CR Reporting

- Hartanti (2007);
 - Examine the disclosure on environment and environmental management system based on the Global Reporting Initiative Guidelines (GRI)
 - Covers 81 manufacturing BUMN/listed companies having PROPER from the Ministry of Environment



Evidence on CSR Reporting

- Hartanti (2007):
 - The average disclosure score on environment is low (8.3 points from a maximum of 30)
 - The average disclosure score environmental management system is also low (2.6 points from a maximum of 7)



Drivers of Strategic CR

- Accountability
- Role of shareholders
- Stakeholders activism
- Enforcement of regulation/rules by the government



CR Reporting and Accountability

- Stakeholders need to evaluate how far a company has performed its roles in accordance with the stakeholders' needs
- Shareholders need to assess if the CR programs are conducted strategically or on ad hoc basis
- CR reporting provides accountability if it enables stakeholders to evaluate CR activities of a firm
 - It provides relevant information
 - It is reliable



Accountable CR Reporting – Is it Possible?

- In general, supporting infrastructure for CR reporting is still inadequate
 - No generally accepted CR reporting standards/guidelines
 - Assurance service on CR is only at infancy state
 - Management is still focused on accounting profit
 - In Indonesia, companies are required to report CR activities in their annual report, however, it is not clear what to report



Role of Shareholders

- Unlike in the U.S, the ownership structure of business entities in Indonesia is usually concentrated meaning it is the controlling shareholders that determine the direction of a company
- Thus, it is crucial controlling shareholders view CSR as an investment instead of an expense
- Highly dependent on stakeholder pressure and government support



Stakeholder and Shareholder Activism

- Reward/punishment by key stakeholders and shareholders may force companies to perform strategic CR (i.e. socially responsible investment, sustainable consumption, etc)
- Freedom of Press/Media
- Public awareness on the importance of sustainable development and CR is relatively low
- This may be due to the lack of social and environmental information for the public



Role of the Government

- Developing regulation/rules that encourage CR
 - Tax incentives, etc.
- Enforcement of regulation/rules
 - Independent oversight body
 - Impartial and efficient judicial process



Thank You
