

## Implementation of Good Corporate Governance in the Business and Operational Processes of PT BPR BKK Karangmalang (Perseroda) Sragen

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### ABSTRAK

This study aims to determine how good corporate governance impacts business and operational activities at PT BPR BKK Karangmalang (Perseroda) Sragen, especially in overcoming irregularities and promoting GCG, alignment of operational activities with GCG principles, GCG contribution in preventing fraud, and GCG effectiveness in improving financial performance. The qualitative research method involves observations and interviews with structural officials related to the topic. The results of this study indicate that the implementation of GCG can bring the company in a better direction from various sides. Effective and efficient GCG implementation can benefit the company, stakeholders, and society positively.

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## Introduction

Many parties argue that the implementation of corporate governance in Indonesia is poor, which is one of the causes of the economic crisis [1]. With the economic crisis, the issue of good corporate governance has become an important topic to support the recovery



process of business activities and economic growth. Corporate governance in the crisis recovery process is needed, given that corporate governance requires good organizational management [2]. OJK Deputy Commissioner for Banking Supervision II, Budi Armanto, argued that the low implementation of good corporate governance (GCG) principles and management risks has led to fraud incidents that occurred in many rural banks (BPRs) so that several BPRs were forced to stop operations. OJK has concluded that most of the fraud occurred due to violations of internal controls, such as a lack of human resource competence and weak internal controls. The chairman of the Indonesian Rural Banks Association (Perbarindo), Joko Suyanto, added that several fundamental reasons require BPRs to implement GCG. Still, BPRs have their business licenses revoked, not because they have lost the competition but because the BPR management still needs to implement GCG responsibly [3].

The issuance of Financial Services Authority Regulation (OJK) No. 4/POJK.03/2015 on April 1, 2015, is one of the steps to improve the financial performance of rural banks (BPRs) through effective governance practices. Implementing BPR governance principles is also necessary to improve BPR performance, protect stakeholders' interests, and ensure compliance with laws, regulations, and norms that apply in the BPR world. Agency theory is The factor underlying companies' need to implement good corporate governance (GCG). This theory assumes a potential conflict of interest between the executive (agent), the shareholders (principal), and other stakeholders. In this situation, company management tends to prioritize personal interests over the interests of shareholders [4]. Agency problems arise due to distrust of each other, so implementing GCG is expected to reduce the potential for fraud and increase trust [5] [6].

Agency theory is a concept that reflects the interaction between two individuals, the party who gives instructions (the principal) and the party who carries out the process (the management). The principal is the party that provides direction to management. In



contrast, management manages the funds the principal provides in good faith. The principal usually provides incentives, both financial and non-financial, to the management [7], [8], and [9]. An agency relationship is a contract or agreement between managers as agents and investors as principals, which can sometimes lead to asymmetry information from managers to investors, causing agency costs [7]. As a result of this agency relationship, agency problems arise where managers seek to maximize their interests while ignoring the interests of the principal, even though the company's main objective should be to optimize the profits of the owners of capital. Therefore, a control mechanism is needed to oversee agent actions.

GCG is a company management system designed to encourage performance, protect stakeholders' interests, and promote compliance with laws and regulations and generally accepted ethical values [1]. Managing a company using GCG principles is a way to make GCG a guideline for companies in managing the company. Using GCG principles can help companies survive and be resilient in the face of increasingly fierce competition, consistently apply business ethics to create a healthy, efficient, and transparent climate, improve budget discipline, and encourage efficient company management. GCG implementation aims to strengthen supervision of management actions, encourage effective decision-making, prevent opportunistic actions that are not in line with the company's interests, and reduce information inequality between executives and various parties involved in the company. Thus, GCG is expected to create favorable conditions and a strong foundation for running BPR operations properly, efficiently, and profitably [4]. Exemplary GCG implementation will benefit the company and interested parties, such as shareholders and the surrounding community. In addition, the trust of shareholders and stakeholders will increase along with the company's better performance. Next, with better corporate governance implemented, it will be able to reduce or minimize acts of fraud or abuse of authority within the company.



The Organization of Economic Cooperation and Development (OECD) introduces the principles of good corporate governance harmonized with the conditions, culture, and customs that apply in each country. These principles are transparency, accountability, responsibility, independence, and fairness or equality. The principle of transparency requires every company to provide timely, adequate, accurate, transparent, and comparable information easily accessible to other stakeholders according to their rights [6]. The principle of accountability states that the company must account for its performance transparently and fairly and must determine each detail of the duties and responsibilities of each company instrument and all company employees clearly and in line with the company's values, objectives, and strategies. The company must also ensure an effective internal control system for managing its company [6]. The responsibility principle states that companies must comply with applicable regulations and be accountable to society and the environment. In their implementation, corporate instruments must adhere to prudence, ensure compliance with laws and regulations, and carry out social responsibilities such as caring for the community and preserving the environment around the company [6].

The principle of independence states that this principle must be managed independently so that each instrument of the company does not dominate each other, there is no interference from other parties, and it must be free from any conflict of interest and/or from any influence or pressure so that decision-making can be done objectively [6]. According to the principles of fairness and equality, the company must always pay attention to the interests of shareholders and other stakeholders. The company must provide opportunities for stakeholders to provide input and express opinions for the company's benefit. In addition, the company must also provide equal and fair treatment to stakeholders according to the benefits and contributions made to the company [6].

Bank Perkreditan Rakyat (BPR) is a financial institution that collects funds from the public in the form of time deposits, savings, and similar products and then reallocates



these funds to the public in the form of loans or credit. BPRs operate to make a profit, usually earned through the difference between the interest rate they pay customers and the interest rate they receive on loans. BPR activities include raising funds from deposits such as time deposits, savings, or similar products, granting credit, providing financing with profit-sharing principles to customers, as well as investing funds in the form of Bank Indonesia Certificates (SBI), time deposits, certificates of deposit, or savings in other banks [10] [11].

During the internship program, it was found that there was a misalignment of activities with one of the GCG principles, responsibility. The principle of responsibility states that company organs must adhere to the principle of prudence and compliance with company regulations or applicable laws. The phenomenon that occurs is the misalignment of company organs with company regulations. In carrying out their duties, an employee must carry out their responsibilities in a sequence or coherently so that there will be no suspicion in the reporting system due to the irregularity of the uploaded report date. The reality that occurs in the field is not like that. Before disbursing debtor funds, it is required to issue a warrant first to know when the superior carries out the disbursement activity. However, what happened was that the disbursement was made first without a warrant being issued. This is very risky because the date the disbursement is made and the date the warrant comes out are different. In addition, it also causes reporting inefficiencies because things happen outside the provisions. Simplifying business processes and setting a precise sequence of tasks is essential to minimizing redundancy and improving workflow. It also helps with better time management and more effective resource assignment [12]. The purpose of this study is to determine how good corporate governance impacts business and operational activities at PT BPR BKK Karangmalang (Perseroda) Sragen Regency, especially in overcoming irregularities and promoting GCG, alignment of operational activities with GCG principles, the contribution of GCG in preventing fraud, and the



effectiveness of GCG in improving financial performance.

## **Methods**

### **Types of Research**

The research was conducted using qualitative research methods with a type of descriptive case study research. Qualitative research is a research method that aims to explore social phenomena to get an in-depth picture that can be expressed in words. This method involves reporting detailed information obtained from informants, usually carried out in a natural environment [13]. The research was conducted at PT BPR BKK Karangmalang (Perseroda) Sragen Regency with direct involvement in the work, so the most appropriate type of research used is a case study. A case study is an in-depth study of individuals, groups, organizations, activity programs, or other entities within a certain period. This research aims to produce a comprehensive and in-depth description of the entity by collecting data that will later be analyzed to develop a theory. As in qualitative research data collection methods in general, data in case studies are obtained through interviews, observations, and data collection from archives [14].

### **Method of Interviewee Determination**

The purposive sampling method was chosen to determine the sources of this research with consideration of understanding related to the problem under study, the availability of information, and the accuracy of the information that needs to be obtained. Purposive sampling is one of the sampling techniques commonly used in research. This method involves sampling based on specific criteria or characteristics that suit the research needs. Sampling is deliberately carried out by selecting samples with particular characteristics, criteria, or properties, so it is not done randomly [15]. The unit of analysis



of this research is at the organizational level of PT BPR BKK Karangmalang (Perseroda) Sragen Regency by conducting interviews with structural officials in the company as the primary informants, namely Mr. Suparno as Director of General Affairs and Compliance and Mrs. Yuni Haryati as Head of Risk Management and Compliance. The interview was conducted once by technically asking questions and answered by Mr. Suparno, then Mrs. Yuni Haryanti added some information. The reason for only interviewing two people was because it was felt that no one was more appropriate than Mr. Suparno and Ms. Yuni. In addition, the resource person's position focuses on compliance in the company environment. It is by the topic of the problem.

### **Data Collecting Methods**

This study used three data collection techniques, (1) interviews, (2) observation, and (3) document analysis (documentation). Interviews were addressed to resource persons who could understand the issues to be raised, namely structural officials ranging from the general director of compliance to the head of risk management. Furthermore, participatory observation was carried out, that observing and being involved in the operational activities of PT BPR BKK Karangmalang (Perseroda) Sragen Regency. Then, the observation results produce notes, which are outlined in the research. In qualitative research, documentation techniques act as a complement to the use of observation and interview methods. Documentation involves collecting relevant documents and data for research and then analyzing the reliability and validity of an event. The results of observations or interviews will be more reliable or credible when supported by documents relevant to the focus of the research [16].

### **Data Analysis Method**

There are three steps in analyzing data: (1) data reduction, (2) data display, and (3)

conclusion drawing or verification [17] [14]. In the data reduction stage, data collection is carried out first using the field observation method during the implementation of the internship, document analysis in the form of organizational structure, and job desk. After reducing the data by selecting and compiling things that need to be done next, conduct interviews with the general director of compliance and the head of risk management and compliance. The results of the interviews were described descriptively. After obtaining the results of the interview and telling them, draw conclusions and suggestions from the data that has been received.

### Validity Testing

In this research, data validity testing is a method of triangulation. Methodological triangulation involves comparing information or data using different approaches. By involving various perspectives or points of view, it is hoped that the research results will be closer to the truth [18].

**Tabel 1.** Triangulation Technique

<b>Interview</b>	<b>Technique</b>	
Mr. Suparno 'For operational supervision, our friends in the field must comply with the SOP'	Dokument	Mr. Suparno showed books containing policies, SOPs, SOTK, job descriptions, etc
Mr. Suparno 'GCG implementation affects performance. Despite the pandemic, there is relaxation, and our productivity achievements are still rising. Our BOPO is at 70 or 71, which is low. Others can be up to 80 to 85.'	Dokument	Can be seen in the publication report uploaded on the official website of PT BPR BKK Karangamalang (Perseroda) Sragen



Mrs. Yuni	'SOP socialization or evaluation is conducted on Tuesdays and Saturdays. If Saturday is a holiday, we can use its'	Observation	Every Tuesday morning, a Zoom meeting is held by all offices, including branch offices, for 1 hour (07.00–08.00) before the service opens.
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Source: Primary Data

## Results and Discussion

The results of the interviews have been grouped according to the outline.

**Tabel 2.** Outline grouping of interview results

Group Outline	Interview Results
Current GCG practices	In the organizational structure, there are special sections related to monitoring the implementation of GCG, namely the compliance director, risk management and compliance work unit, and internal audit work unit (SKAI), which are independent and in charge of overseeing all company operations to comply with SOPs and conducting socialization with employees if there are new SOPs or regulations, including policies related to SOTK. In addition, it also follows up on findings from SKAI or OJK. GCG principles are integrated into daily activities, such as transparency, where work is reported and can be accounted for. All transactions are booked and recorded within one day. Accountability: all business and operational activities are recorded.

Management and employee engagement	Management is instrumental in making regulations, carrying out supervision with its organs, conducting evaluations, and reviewing any new policies or rules from the authorities. Management has organs; SKAI is in charge of conducting checks on branch offices, and SKMRK is an arm of management that supervises operational employees and ensures compliance with GCG. Training is conducted periodically. Training materials are expected to come from branch office input on what training is needed. Presenters can come from within the company in charge or invite external facilitators according to the material needs.
Monitoring and evaluation	One of the applicable monitoring methods is the assessment of GCG or the implementation of corporate governance. The review can be done once every 6 months to 1 year. In addition, the SKAI inspection report is evaluated with the target that fewer findings are found. The board of directors sends SKAI to inspect branch offices with particular event problems.
Compliance and responsibility	Periodic checks are carried out by SKAI and deployed to branch offices. When the performance of a branch office is not as it should be, there are indications of a problem. The branch manager, the director's extended arm, must supervise his employees. If there are irregularities, they must report them to the director.
Feedback and improvement	The results of the checks carried out by the audit will be reviewed and followed up. In addition, it provides solutions and policies that can improve the results obtained. Improvements on the SOP side can be made by reviewing and constantly updating applicable regulations and conducting routine evaluations on the implementation of the SOP, one of which is to determine performance-based. In responding to fraud cases, the company encourages employees to care for each other to avoid incidents of improper utilization of office money.
Challenges	Challenges during supervision when there is still a need for more transparency. There are still employees who cover up the mistakes of other employees at small risks. As for the challenges in implementing corporate governance, some employees are indifferent and want to avoid keeping up with the times, which can hinder work.



Improving corporate governance	Providing incentives to branch offices that perform well and can achieve their targets and providing incentive services to employees who have 20 years of service. In addition, demotions are applied to employees who commit inappropriate offenses. As one of the strategies to improve GCG practices, the company created a special complaint number that everyone can access and protect the reporter's identity.
GCG Integration	The SOP guides every activity carried out by employees. On the accountability side, it is enforced that whoever acts is responsible and receives punishment from the company.
Changes	After the existence of POJK related to corporate governance, performance is more measurable, organized, fair, and better in every aspect. The applicable system deals with all matters.

*Source: Primary Data*

## Discussion

### Addressing irregularities and promoting corporate governance

Corporate governance is a system that directs and controls a company's business activities. Good corporate governance is also an approach used to regulate the relationship between stakeholders so that significant errors can be corrected or minimized [19] [20]. The organizational structure at PT BPR BKK Karangmalang is in a special section related to monitoring the implementation of GCG, namely the compliance director, risk management and compliance work unit, and internal audit work unit (SKAI), each of which is independent in carrying out its work. Before overcoming and promoting, the first thing to do is to identify the problems that occur. The management of PT BPR BKK Karangmalang identifies issues within the company and branch offices by sending SKAI to the branch office or calling the branch head to report on the condition of his office. Inspections by SKAI or OJK are carried out routinely once a year or at least once a year. But if there is a particular incident, the board of directors will ask SKAI to check for



suspicious at the branch office.

In supervising operational activities in the company, all employees must comply with and carry out operational activities by the SOPs and regulations that apply in the company. In addition, PT BPR BKK Karangmalang also has a policy related to SOTK, which contains sections, positions, primary duties, authorities, and job descriptions. To ensure that all employees know and understand the existence of SOPs or regulations, P.T. BPR BKK Karangmalang conducts socialization for all employees in the company with a tiered system and according to the field. As for the head of the branch, Tiered is done separately, along with the head of the section. Then, for certain sections, training is also carried out, such as service, operations, or marketing. Suppose some fellow employees need help understanding the things that have been socialized. In that case, an agenda will be made again for sharing questions and answers.

In the company's efforts to improve corporate governance at the branch level, PT BPR BKK Karangmalang will provide incentives to branches that perform well, those that can achieve their targets and have no problems. In addition to the branch office level, PT BPR BKK Karangmalang also provides incentives to employees with a service period of 20 years, with a record of not committing an offense during work, and given twice the salary received. In addition to providing incentives, PT BPR BKK Karangmalang also applies demotions to employees who violate or commit unpleasant and inappropriate actions by bank employees. The challenge faced by the company in implementing effective corporate governance is that of the employees who need to be more open to their work. They do not want to keep up with the times, while the rules and regulations that have been made inevitably must be followed. They will be eliminated if they cannot keep up with the times.

### **Alignment between Operational Activities and Corporate Governance Principles**



The implementation of good corporate governance (GCG) is a series of actions, behavior patterns, systems, and steps taken by a company to increase company value while paying attention to the rights of other stakeholders by applicable ethical principles [21] [22]. The provision of socialization and training in stages is expected so that operational activities will run by and in line with the principles of GCG principles and regulations applicable at PT BPR BKK Karangmalang. This is evidenced by the increase in employee productivity, even though in a pandemic situation, productivity achievements have still increased. In addition, PT BPR BKK Karangmalang employees have also complied with the applicable rules and regulations, so if some cannot follow, they will be eliminated and cannot be promoted.

The challenge in monitoring compliance with the principles of GCG is that things still need to be discovered or opened. However, P.T. BPR BKK Karangmalang employees are already highly aware of risky and fatal things. P.T. BPR BKK Karangmalang has made changes to attendance policies and KPIs refined to support GCG principles, with technical assessments by employees, which superiors will then approve. The evaluation starts with employee discipline, such as attendance, obligations, participation in company activities, and ethics. The company's mechanism for evaluating compliance using deployment and inspection from SKAI is to expect fewer and fewer findings from each inspection. The findings of the SKAI inspection will then be monitored for implementation so that the same findings will not be found in the next inspection. To achieve the target of no old or new findings. Every time they carry out their business activities, all employees are guided by the SOP. On the accountability side, it emphasizes whoever does what is responsible. An example of applying the principle of responsibility in the operational activities of PT BPR BKK Karangmalang is when there is a non-performing loan that comes from a process error. The party involved bears the responsibility.

### **GCG implementation contributes to fraud prevention.**



According to Black's Law Dictionary, fraud includes all actions humans can take to gain an advantage over others through false advice or coercion and consists of all unexpected, convoluted, cunning, hidden methods and all forms of dishonesty that can mislead others [23]. Fraud incidents in an organization or company can be committed by various parties, ranging from the lower level of management to the owner. One example of fraud in a company is in the procurement process [24], where the perpetrators can be individuals or groups within the company (employees) who receive rewards from the counterparties involved in the procurement process.

Weak internal controls can motivate individuals or groups that previously did not consider committing fraud because they see a wide-open opportunity to do so. Misappropriation of assets and manipulation of financial statements (fraudulent statements) are types of fraud that often occur in private companies. Implementing good corporate governance can be a reliable foundation to prevent both types of fraud [25].

In carrying out its business activities, PT BPR BKK Karangmalang always conducts supervision by the branch head in each branch, the compliance director, risk management, and SKAI to strengthen internal control and prevent improper financial reporting. The branch head holds responsibility for the branch he leads, and he always ensures and supervises activities at the branch. If there are irregularities or problems at the branch, the branch head can report them to the board of directors, and then the board of directors sends SKAI to check if there are findings. The compliance and risk management director is part of the management that makes regulations and policies related to GCG to prevent errors in financial reporting. Management efforts in handling and correcting weaknesses that can lead to fraud include identifying employees who are indicated to have misused company money and then being dismissed from their jobs. As an institution of trust, PT BPR BKK Karangmalang always maintains customers' trust. To keep it, P.T. BPR BKK Karangmalang encourages employees to be sensitive and care for each other to



avoid unwanted events, namely employees utilizing company money, which can result in errors in financial reporting.

### **Effectiveness of GCG Principles Implementation after the issuance of POJK No. 4/POJK.03/2015 for improving financial performance and reducing financial risk**

Good corporate governance is one of the factors that can increase profitability and company performance. By implementing GCG principles, the company can improve its performance by enhancing the decision-making process, increasing operational efficiency, and improving services to shareholders [26]. Financial performance is an indicator that reflects how effective and efficient an organization is in achieving its goals. Effectiveness occurs when management chooses the right goals or appropriate tools to achieve the goals set [27]. Good corporate governance is a system that regulates and controls the company to create added value for all stakeholders. The higher the level of GCG implementation, the more significant the impact on improving financial performance. Therefore, companies need to implement good governance by applying GCG principles such as transparency, accountability, fairness, and responsibility to improve financial performance. The better implementation of GCG in a company, the more careful company will be in managing and reporting its finances so that the possibility of manipulation and fraud will be reduced, improving company performance [28].

POJK No. 4/POJK.03/2015 is a regulation issued by OJK on April 1, 2015, regarding implementing Governance for Rural Banks. One of the reasons for making the POJK is because many BPRs have had their business licenses revoked, not because they have lost the competition but because they have not been able to implement GCG and risk management, so there is still a lot of management and structuring in BPRs that are not professional and do not understand the risks that will occur in the future [3]. After the enactment of POJK No. 4/POJK.03/2015, there were significant changes in the running business activities. For example, performance is increasingly measurable, fairer, and better



in all respects, and the governance issued by the POJK has structured the organizational structure. In addition, in terms of risk management, it is also better to review in advance all actions that the company will take; if it is felt that later they will pose a high risk, they will be canceled.

One example of the implementation of POJK No. 4/POJK.03/2015 in the corporate environment is justice. In doing their work, employees who violate company regulations will be punished for their violations, while employees who perform well and can achieve targets will be given incentives.

GCG also plays a role by influencing performance and risk management in the company. With the implementation of this POJK, business activities in the company have experienced significant changes. As seen during the pandemic, the implementation of GCG in every business activity of the company has had a very positive impact. Despite the severe pandemic, PT BPR BKK Karangmalang can achieve its productivity, which continues to increase, and can still reach the targets set by the owner, for example, in terms of profits, which are consistently achieved and even increased. This shows that GCG affects activities in terms of performance. P.T. BPR BKK Karangmalang also increased efficiency during the pandemic so that targets could always be achieved. It can be seen in the publication report that the BOPO of P.T. BPR BKK Karangmalang is at 70 to 71, which means that the BOPO ratio of P.T. BPR BKK Karangmalang is categorized as very healthy so that it can perform well.

To measure the effectiveness of GCG implementation, PT BPR BKK Karangmalang has several indicators—first, the fewer or decreasing number of problem findings by SKAI. Second, the same problem or violation is not found in each finding. Third, the achievement of general performance such as increased company profits, higher lending, higher fundraising, and smaller or lower NPL rates. Fourth, there are no sanctions or reprimands obtained from the authorities.





## Conclusion

Based on the results of the research and discussion above, it can be concluded that:

(1) To support the implementation of corporate governance, P.T. BPR BKK Karangmalang conducts various things, ranging from socialization and training at tiered levels, to providing incentives to employees or branch offices that can achieve their targets, and demotions for employees who need to comply with company policies. (2) PT BPR BKK Karangmalang successfully implemented GCG with increased employee productivity. (3) SKAI continuously checks at least once a year at each branch office or when there is something odd to prevent or reduce the potential for fraud. (4) With the implementation of GCG, PT BPR BKK Karangmalang can increase efficiency to achieve and even exceed targets, such as profit. The problems found in the GCG principles, namely responsibility in the form of a lack of awareness to comply with applicable regulations in the company, mean that some suggestions or recommendations can be given, is building a corporate culture that emphasizes integrity, ethics, and responsibility in every operational business activity in the company.

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