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Reconceptualizing the Concept of Corporate Governance and its Goals in People's Credit Banks in Indonesia

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Abstract

This Article examines the concept of corporate governance and its goals in People's Credit Banks (PCBs). In 2015, Indonesian Financial Services Authority (IFSA) issued two main regulations on corporate governance and risk management for People's Credit Banks (PCBs). This investigation shows that in these two regulations ISFA simply defines corporate governance as the implementation of transparency, accountability, responsibility, independence and fairness (TARIF) principles by PCBs. Basically, such kind of conceptualization is not appropriate as it does not define the concept of corporate governance itself, but rather, it just reaffirms the general principles of good corporate governance. Meanwhile, IFSA does not clearly provide the goals of corporate governance in PCBs. It is recommended that IFSA should reconceptualize the definition of corporate governance by focusing more on the function of PBCs boards. Meanwhile, the goals of corporate governance in PCBs should deal more with the achievement of long-term success of PCBs.

Keywords: Corporate Governance; People's Credit Banks; Indonesian Financial Services Authority; Board; Goals.

Introduction

Prior to 2015, practically, PCBs in Indonesia did not have sounder corporate governance standards. There was no clear guideline for PCBs to have and implement corporate governance standards.¹ The situation started to change when Indonesian Financial Services Authority (IFSA) issued two key regulations

¹ Yafet Yosafet Wilben Rissy, 'Corporate Governance in People's Credit Banks In Indonesia: A Study of the Standards, Model and Compliance' (Queensland University of Technology, Australia 2018) <<https://eprints.qut.edu.au/120982/>>.[23].; Yafet Yosafet Wilben Rissy, 'Corporate Governance in People's Credit Banks in Indonesia: A Challenge for a Better Future' in Schmidpeter R. et al (ed), *International Dimensions of Sustainable Management: Latest Perspectives from Corporate Governance, Responsible Finance and CSR* (Springer 2019).[163-164].

on corporate governance (IFSA Corporate Governance for PCBs of 2015)² and risk management (IFSA Risk Management Corporate Governance for PCBs of 2015)³ for PCBs in 2015. In these two regulations, IFSA tries to define corporate governance for PCBs as well as to formulate the goals of the implementation of corporate governance for PCBs.

Unfortunately, the definition of corporate governance provided by IFSA does not mirror the core meaning of corporate governance itself. In addition, the goals of the implementation of corporate governance by PCBs that offered by IFSA do not highlight the crucial destiny of corporate governance practices as accepted globally (for example, The 2016 Dutch Corporate Governance Code,⁴ the 2016 UK Corporate Governance Code,⁵ the 2017 Germany Corporate Governance Code⁶). For these reasons, this article attempts to reconceptualize the notion of corporate governance in PCBs by providing a standard definition of corporate governance that can be applied in PCBs and to reformulate the goals of the implementation of corporate governance for PCBs in Indonesia.

This article starts with the elaboration of the history, goals and legal entities of PCBs. It then continues with the discussion on the reconceptualization of the definition of corporate governance in PCBs and the justification on the reformulation of the goals of the implementation of corporate governance in PCBs. Finally, this article ends with providing some conclusions as well as recommendations to mitigate the problem of corporate governance concept and its goals in PCBs.

² Indonesian Financial Services Authority Regulation Number 4/POJK03/2015 concerning *The Implementation of Corporate Governance in People's Credit Banks*.

³ Indonesian Financial Services Authority Regulation Number 13/POJK03/2015 concerning *The Implementation of Risk Management in People's Credit Banks*.

⁴ The Dutch Corporate Governance Code Monitoring Committee, 'The Dutch Corporate Governance Code of 2016' (mccg, 2016) <<http://www.mccg.nl/download/?id=3367>> accessed 7 February 2020.

⁵ Financial Reporting Council, 'The UK Corporate Governance Code of 2016' (*Financial Reporting Council*, 2016) <<https://www.frc.org.uk/Our-Work/Publications/Corporate-Governance/UK-Corporate-Governance-Code-April-2016.pdf>> accessed 5 February 2020.

⁶ The Regierungskommission Deutscher Corporate Governance Kodex, 'German Corporate Governance Code of 2017' (*DCGK*, 2017) <http://www.dcgk.de/files/dcgk/usercontent/en/download/code/170214_Code.pdf> accessed 6 February 2020.

People's Credit Banks: its History, Goals and Legal Entities

1. The History of PCBs in Indonesia

The existence of *Bank Perkreditan Rakyat* (BPR) (or PCBs), started at the end of the 19th century. This type of bank was initially named *Badan Kredit Desa* (BKD) or Village Credit Board, and it was a term that later referred to *Bank Desa* (BD) (village banks) and *Lumbung Padi* (LP) (paddy banks). These two types of banks were established based on Dutch colonial regulation, especially in Java and Madura. They were managed by the colonial government, Indonesian officials, and persons under the colonial 'welfare policy'.⁷ The initial goal of the BKD and BD was to protect poor farmers from the exploitation of the 'usurer'.⁸

The BKD was formally acknowledged by the Dutch administration in 1929 in its '*Staatblad*' concerning the *Village Credit Institution Act* and BKDs were supervised by the '*Algemeene Volkscredietbank*' (AVB Bank). BKDs also provided agriculture loans to farmers.⁹ Later, after Indonesian independence, BKDs were not further regulated in the Banking Law 1967. However, BKDs were granted a collective business license and acknowledged as PCBs by the Minister of Finance. At this time, there were 3,289 BDs and 2,056 LPs. According to Art 4 of the Banking Law 1967¹⁰ banks that received a working license before this Act, became operational and continued their activities. The status and activities of PCBs were recognized as secondary banks and they would be regulated in a separate Act. However, there was no Act passed on this matter.¹¹

Between 1970 and 1990, another type of credit institution called *Lembaga Dana Kredit Pedesaan* (Rural Fund and Credit Institutions) was established. These

⁷ Bank Indonesia and Deutsche Gesellschaft für Technische Zusammenarbeit, 'Legislation, Regulation and Supervision of Microfinance Institutions In Indonesia' (2000) <<http://www.microfinancegateway.org/sites/default/files/mfg-en-paper-legislation-regulation-and-supervision-of-microfinance-institutions-in-indonesia-2000.pdf>> accessed 8 January 2020.[16].

⁸ World Bank, 'Indonesia's Rural Financial System: The Role of the State and Private Institutions' (*World Bank*, 2005) <<http://documents.worldbank.org/curated/en/2005/01/5578549/indonesias-rural-financial-system-role-state-private-institutions>> accessed 9 January 2020.[5].

⁹ Bank Indonesia and Deutsche Gesellschaft für Technische Zusammenarbeit (n 7).[16].

¹⁰ *Law Number 14 of 1967 concerning Banking*.

¹¹ Bank Indonesia and Deutsche Gesellschaft für Technische Zusammenarbeit (n 7).[16].

institutions were later converted to PCBs. These institutions were owned by the provincial government.¹² There were three main parties involved in the establishment of these institutions: Bank Indonesia, the Ministry of Finance, and the Ministry of Home Affairs. In September 1994, these institutions promulgated a joint decree concerning the criteria for the Rural Fund and Credit Institutions to be licensed as PCBs.¹³ In their development, these institutions were required by the Banking Law 1992¹⁴ to apply for a PCB license, and as a result, there were 625 LDKPs acknowledged as PCBs. In 1992, the Indonesian Government issued a new comprehensive regulation on PCBs.¹⁵ The development of PCBs (and general banks) gathered momentum when Bank Indonesia released a policy called *Paket Deregulasi Oktober 1988* ('the *Pakto 1988*). This policy was recognised as the most liberal, aggressive and expansive policy in the banking field. The *Pakto 1988* eased the establishment of banks and associated requirements. Business licenses in the banking sector, which had been closed since 1971, were started again. Another purpose of the *Pakto 1988* was to encourage the 'banking industry to mobilise savings and expand credit'.¹⁶

The *Pakto 1988* led to the recognition of two sorts of PCBs: an old style of PCBs (*BPR gaya lama*) and a new style of PCBs (*BPR gaya baru*). The old style of PCBs were the banks that acquired their business license before the *Pakto 1988* and the new style were the banks that acquired their business after the *Pakto 1988*. The old style of PCBs consist of *Bank Desa* (Village Bank), *Bank Pasar* (Marked Bank), *Bank Pegawai* (Labor Bank), *Lumbung Pitih Nagari* (Paddy Pitih Nagari Bank), *Lembaga Perkreditan Desa* (Village Credit Board), *Kredit Usaha Rakyat Kecil* (Credit for Small Business), *Badan Kredit Kecamatan* (Sub District Credit Board), and *Bank Karya Produksi Desa* (Village Production Bank).¹⁷

¹² *ibid.*

¹³ Patrick Meagher et al, 'Microfinance Regulation in Seven Countries: A Comparative Study' (*The IISH Center, University of Maryland, 2006*) <http://www.microfinancegateway.org/sites/default/files/mfg-en-paper-microfinance-regulation-in-seven-countries-a-comparative-study-2006_0.pdf> accessed 8 February 2020.

¹⁴ *Law Number 7 of 1997 concerning Banking.*

¹⁵ Patrick Meagher et al (n 13).[51].

¹⁶ *ibid.*[49].

¹⁷ *ibid.*

The total number of old-style PCBs was 371.¹⁸ The new style of PCBs included banks founded after the *Pakto 1998*. Generally, these new-style PCBs were owned by private parties and some of them were established as cooperatives. Their size was 1,424. In the same year, 1998, the President PCBs Decree 1988¹⁹ was issued. Based on this decree, all the aforementioned banks were acknowledged as PCBs. Later, the Banking Law 1992 and its amendment (the Banking Law of 1998) acknowledged the existence of PCBs and simplified Indonesian banks into just two categories: general banks or commercial banks, and PCBs.²⁰ In its development, Bank Indonesia took over the responsibility for regulating PCBs from the Finance Minister and Cooperative Minister. Bank Indonesia then promulgated a new regime on PCBs in 2006²¹ to replace Government Regulation Number 71 of 1992 concerning People's Credit Banks.²² Later, the power to supervise and regulate PCBs again was transferred from Bank Indonesia to the IFSA on 31 December 2013.²³ In 2014, the IFSA then promulgated a new regulation on PCBs (IFSA PCBs Regulation of 2014),²⁴ that is currently applicable to PCBs. In terms of corporate governance, however, IFSA PCBs Regulation of 2014 only provides a general exposition on PCBs' structure and organs, including their requirements, compositions and duties. This Regulation does not provide any requirements or guidelines that deal with corporate governance and risk management. These issues were not dealt with until a year later, in 2015, when the IFSA finally promulgated two new regulations on corporate governance²⁵ and risk management.²⁶

¹⁸ Djoni S Gazali and Rachmadi Usman, *Hukum Perbankan* (Sinar Grafika Press 2010).[52].

¹⁹ *President Decree Number 38 of 1998 concerning People's Credit Banks*.

²⁰ Article 5 of *Law Number 10 of 1998 concerning The Amendment of Law Number 7 of 1992 concerning Banking*.

²¹ *Bank Indonesia Regulation Number 8/26/PBI/2006 concerning People's Credit Banks*.

²² *Indonesian Financial Services Authority Regulation Number 20/POJK01/2014 concerning People's Credit Banks*.

²³ Article 6 of *Law Number 21 of 2001 concerning Financial Services Authority*.

²⁴ *Indonesian Financial Services Authority Regulation Number 20/POJK.01/2014 concerning People's Credit Banks* (n 22).

²⁵ *Indonesian Financial Services Authority Regulation Number 4/POJK03/2015 concerning The Implementation of Corporate Governance in People's Credit Banks*.

²⁶ *Indonesian Financial Services Authority Regulation Number 13/POJK.03/2015 concerning The Implementation of Risk Management in People's Credit Banks* (n 3).

2. PCBs' Goals and Legal Entities

Pursuant to Articles 1(3), 1(4) and 5(1) of the Banking Law 1998, two sorts of banks are recognized: general banks and PCBs. General banks and PCBs are conventionally run and based on Sharia principles.²⁷ The difference, however, is that general banks provide payment transaction services, while PCBs do not. Bank Indonesia and the IFSA state that PCBs are established to serve small-scale businesses and people in rural areas, to increase accessibility to banking services and to boost economic growth and prosperity.²⁸ As a legal entity, PCBs can be limited liability companies (*perseroan terbatas*), cooperatives (*koperasi*) and regional government enterprises (RGEs) (*perusahaan daerah*). All Sharia People's Financing Banks (SPFBs) and all general or commercial banks are limited liability companies.²⁹ Pursuant to Article 1(2) of the Banking Law 1998, a bank is defined as a corporate entity mobilising funds from the public in the form of deposits and channeling them to the public in the form of credit and/or other forms to improve people's welfare.

The main function of both commercial banks and PCBs in Indonesia is to collect funds and distribute the funds. Other objectives of Indonesian banks are to support national development to achieve equitable distribution, economic growth, sustainable national stability and people's welfare.³⁰ The Indonesian banking structure consists of commercial banks and PCBs. As of September 2015, there were 118 commercial banks that consisted of 106 conventional commercial banks and 12 Sharia commercial banks, and 1,806 PCBs that consisted of 1,644 conventional PCBs and 162 Sharia People's Financing Banks.³¹ The Indonesian banking system

²⁷ Law Number 21 of 2008 concerning Sharia Banking.

²⁸ See the Considerations in *Bank Indonesia Regulation Number 8/26/PBI/2006 concerning People's Credit Banks*. See also the Consideration Letter B in *Indonesian Financial Services Authority Regulation Number 20/POJK.01/2014 concerning People's Credit Banks*.

²⁹ See *Indonesian Financial Services Authority Regulation Number 3/POJK3/2016 concerning Sharia People's Financing Banks*.

³⁰ Articles 4, 5 (1) of Law Number 10 of 1998 concerning *The Amendment of Law Number 7 of 1992 concerning Banking* (n 20).

³¹ Indonesian Financial Services Authority, 'Lembaga Perbankan' (*OJK*, 2005) <<http://www.ojk.go.id/id/kanal/perbankan/ikhtisar-perbankan/Pages/Lembaga-Perbankan.aspx>> accessed 2 March 2020.

can also be categorised based on the function of banks. There are five types of banks according to this categorisation: central banks, commercial banks, saving banks, development banks and PCBs.³²

Reconceptualizing the Definition of Corporate Governance in People's Credit Banks

IFSA defines corporate governance as the implementation of transparency, accountability, responsibility, independence and fairness ('TARIF') principles by PCBs.³³ There is no further detailed explanation of this concept. It is clear that the above definition of corporate governance for PCBs deals with the more general principles of corporate governance, not the concept of corporate governance itself. Therefore, corporate governance as a concept is not helpfully defined in the existing corporate governance standards. This definition has been a main flaw in the 2015 IFSA Regulations on Corporate Governance³⁴ and Risk Management.³⁵

The author argues that the TARIF principles should be differentiated from the definition of corporate governance itself. The TARIF principles, as they are included in the IFSA's definition of corporate governance, are the general values that guide the implementation of good corporate governance. The TARIF principles, accordingly, are the basic general principles of good corporate governance, written in the 2006 Indonesian Code of Corporate Governance, that need to be implemented to ensure the sustainability of a company.³⁶ To have a clear understanding on the difference between the TARIF principles and the essential concept of corporate governance itself, it is important to explain the TARIF principles. The 2006 Indonesian Code of Good Corporate Governance states that the transparency principle deals with

³² Frianto Pandia et al, *Lembaga Keuangan* (PT Rineka Cipta 2004).[12].

³³ Article 1 (7) of *Indonesian Financial Services Authority Regulation Number 4/POJK.03/2015 concerning The Implementation of Corporate Governance in People's Credit Banks* (n 25).

³⁴ *ibid.*

³⁵ *Indonesian Financial Services Authority Regulation Number 13/POJK.03/2015 concerning The Implementation of Risk Management in People's Credit Banks* (n 3).

³⁶ Komite Nasional Kebijakan Governance, *Pedoman Umum Good Corporate Governance Indonesia* (KNKKG 2006).[5-7].

a company's obligation to provide material and any relevant information to the stakeholder to preserve objectivity in doing business. The accountability principle focuses on the proper management of a company where the interest of the company is aligned with those of shareholders and stakeholders. The responsibility principle confirms the importance of a company complying with all laws/regulations and meeting its responsibility to environmental surroundings to ensure the sustainability of the company. The independency principle affirms that a company shall be managed independently where the company's organs exercise a balance of power and there is no one organ that dominates the others. Finally, the fairness principle asserts that a company should consider the interest of the shareholders and other stakeholders fairly.³⁷ From the aforementioned explanation, it is again obvious that the TARIF principles are not the concept of corporate governance itself, but rather they are simply general guidance for implementing good corporate governance.

With respect to the definition of corporate governance, as have been discussed by many scholars like Carvey and Swan,³⁸ Oman,³⁹ Zingales,⁴⁰ Tricker,⁴¹ Aguilera and Jackson,⁴² Tricker,⁴³ Macey,⁴⁴ Macey and O'hara,⁴⁵ there is no single accepted definition of corporate governance. However, one aspect of the definition of corporate governance in the United Kingdom, for example, is that corporate governance deals with the system by which a company is directed and supervised.

³⁷ *ibid.*

³⁸ Gerald T. Garvey and Peter L. Swan, 'The Economics of Corporate Governance: Beyond the Marshallian Firm' (1994) 1 *Journal of Corporate Finance*. [139].

³⁹ Charles P. Oman, 'Corporate Governance and National Development' (2001) 180 <<https://www.oecd-ilibrary.org/docserver/113535588267.pdf?expires=1583983413&id=id&accname=guest&checksum=AED124C0FF1F4A2E16CCAB4F98>>.

⁴⁰ Luiz Zingales, 'Corporate Governance, The New Palgrave Dictionary of Economics and the Law' (1998) <<https://ssrn.com/abstract=46906> or <http://dx.doi.org/10.2139/ssrn.46906>> accessed 15 February 2020.

⁴¹ Robert Ian Tricker, *Corporate Governance, Practices, Procedures and Powers in British Companies and Their Boards of Directors, The Corporate Policy Group* (Oxford University Press 1984).

⁴² Ruth Aguilera and Gregory Jackson, 'Comparative and International Corporate Governance' (2010) 4 *The Academy of Management Annals*.

⁴³ Robert Ian Tricker, *The Evolution of Corporate Governance* (Sage Publication Ltd 2012).

⁴⁴ Jonathan R. Macey, *Corporate Governance, Promises Kept, Promises Broken* (Princeton University Press 2010).

⁴⁵ Jonathan R. Macey and Maureen O'hara, 'The Corporate Governance of Banks' (2003) 9 *Economic Policy Review*. [91-107].

The Cadbury Committee proposed this definition in 1992 and it was confirmed in the 2016 UK Code. The Cadbury Committee stated that:

“Corporate governance is the system by which companies are directed and controlled. Boards of directors are responsible for the governance of their companies. The shareholders’ role in governance is to appoint the directors and the auditors and to satisfy themselves that an appropriate governance structure is in place. The responsibilities of the board include setting the company’s strategic aims, providing the leadership to put them into effect, supervising the management of the business and reporting to shareholders on their stewardship. The board’s actions are subject to laws, regulations and the shareholders in general meeting”.⁴⁶

Therefore, according the UK Corporate Governance Code of 2016, corporate governance deals with ‘what the board of a company does and how it sets the values of the company. It is to be distinguished from the day to day operational management of the company by full-time executives’.⁴⁷ Similar to that, the Dutch Corporate Governance Code of 2016 also defines corporate governance in a similar manner. It states that corporate governance deals with ‘management and control, ... responsibility and influence, ... [and] supervision and accountability’ of a company.⁴⁸ Meanwhile, the 2015 G20/OECD Corporate Governance Principles conceptualizes corporate governance as ‘a set of relationships between a company’s management, its board, its shareholders, and other stakeholders’.⁴⁹ Corporate governance also deals with the structure through which the objectives of the company are set, and the means of achieving those aims and supervising performance.⁵⁰ In terms of the banking industry, the 2015 Basel Committee Principles of Corporate Governance defines corporate governance as a system where authorities and responsibilities are allocated, and as a system for the way the business and affairs of a bank are governed by its board and senior management.⁵¹

⁴⁶ The Cadbury Committee, ‘Report on the Committee on the Financial Aspect of Corporate Governance’ (*ECGI*, 1992) <<http://www.ecgi.org/codes/documents/cadbury.pdf>> accessed 25 January 2020.; Financial Reporting Council (n 5).[1].

⁴⁷ Financial Reporting Council (n 5).[1].

⁴⁸ The Dutch Corporate Governance Code Monitoring Committee (n 4).[7].

⁴⁹ The G20/OECD, ‘Principles of Corporate Governance of 2015’ (*OECD*, 2015) <<http://www.oecd.org/daf/ca/Corporate-Governance-Principles-ENG.pdf>> accessed 3 March 2020.[9].

⁵⁰ *ibid.*

⁵¹ Basel Committee on Banking Supervision, ‘Guidelines Corporate Governance Principles for Banks’ (2015) <<https://www.bis.org/bcbs/publ/d328.pdf>> accessed 27 January 2020.[1]

Aside from the above definitions, many scholars also try to define corporate governance. Some relate corporate governance to the shareholder model of corporate governance. Shleifer and Vishny,⁵² for example, define corporate governance as ‘the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment’. Similar concepts are used by Denis and McConnell,⁵³ where corporate governance is perceived as ‘the set of mechanisms-both institutional and market-based –that induce the self-interested controllers of a company (those that make decisions regarding how the company will be operated) to make decisions that maximize the value of the company to its owners (the suppliers of capital)’. Levitt⁵⁴ describes corporate governance as the relationship between the investor, the management team, and the board of directors of a company.

In addition, Turnbull⁵⁵ explains that ‘corporate governance describes all the influences affecting the institutional processes including those for appointing the controllers and/or regulators, involved in organizing the production and sale of goods and services’. Hence, the definitions quoted above give priority focus on two main parties: owners (principals), or shareholders or finance suppliers and agents (managers). Therefore, based upon the above concepts of corporate governance as highlighted in the codes of corporate governance as well as from scholars opinions, the definition of corporate governance in the context of PCBs could focus on how BOCs and the committees (such as the audit committee and the risk management committee), directors and the units (such as the internal audit unit), the risk management unit and the compliance unit, and other key executives can effectively relate to their stakeholders such as shareholders, lenders, depositors,

⁵² Andrey Shleifer and Robert W. Vishny, ‘A Survey of Corporate Governance’ (1997) 52 *The Journal of Finance*. [737].

⁵³ Diane K. Denis and John J. McConnell, ‘International Corporate Governance’ (2003) 38 *Journal of Financial and Quantitative Analysis*. [2].

⁵⁴ Arthur Levitt, *Take on the Street: What Wall St. and Corporate America Don't Want You to Know/What You Can Do to Fight Back* (Vintage 2002). [209].

⁵⁵ Shann Turnbull, ‘Corporate Governance: Its Scope, Concerns and Theories’ (1997) 5 *Corporate Governance: An International Review*. [181].

local communities, local governments, IFSA and Indonesian Deposit Insurance Cooperation (IDIC).⁵⁶

The definition of corporate governance in PCBs could also deal with the effectiveness of the above structures in executing their duties, the endorsement of the stakeholder approach, especially how PCBs, BOCs and directors take into account their stakeholders' interests, the effectiveness of PCBs' structures and control, and how to direct PCBs to achieve their goals. Such a definition should be included at the beginning of the IFSA's Regulation 2015 on corporate governance, so that there is a clear understanding of corporate governance in the PCBs context.⁵⁷ Hence, corporate governance in PCBs should be defined as a mechanism where board of PCBs direct and control PCBs effectively by considering and aligning all PCBs legitimate stakeholders' interests to achieve PCBs long-term success.

Reformulation of the Goals of Corporate Governance in People's Credit Banks

It is interesting that after examining all of the contents of the IFSA's Corporate Governance Implementation Regulation of 2015⁵⁸ and other related prevailing laws or regulations concerning corporate governance standards in PCBs, there is no one explicit article or explanation on the goal of corporate governance in PCBs. The only information as to the goals of corporate governance in PCBs is found in the Consideration Letter B of the IFSA Corporate Governance Implementation Regulation 2015. It establishes that corporate governance needs to be implemented in PCBs to increase PCBs' performance, to protect the stakeholders, and to improve compliance with laws/regulations and ethical values in banking. It seems that these goals are too general and not enough if they are connected with corporate governance mechanism. Hence, the formulation of the goals of corporate governance should be more specific and deal more the goals of corporate governance themselves

⁵⁶ Yafet Yosafet Wilben Rissy, 'Corporate Governance in People's Credit Banks in Indonesia: A Challenge for a Better Future' (n 1).[104-105].

⁵⁷ *ibid.*[105].

⁵⁸ *Indonesian Financial Services Authority Regulation Number 4/POJK.03/2015 concerning The Implementation of Corporate Governance in People's Credit Banks.* (n 2).

for PCBs. In addition, as the goals of implementing corporate governance are pivotal for PCBs, it is improper to just place them in the consideration part of regulation. They should be regulated and explained in the provisions (the body) of the regulation.

In order to reformulate the goals of implementing corporate governance in PCBs, it is critical to review this theme from code of corporate governance perspectives. The formulation of the goals of corporate governance should be drafted to be concise and clear. In the UK and the Netherlands, for example, the statement with regard to the main goal of corporate governance is clear: to deliver the long-term success of the corporation or to achieve long-term value creation for the company. In the UK, the 2016 UK Corporate Governance Code establishes that ‘the purpose of corporate governance is to facilitate effective, entrepreneurial and prudent management that can deliver the long-term success of the company’.⁵⁹ It is also stated ‘every company should be headed by an effective board which is collectively responsible for the long-term success of the company’.⁶⁰ In the Netherlands, the 2016 Dutch Corporate Governance Code definitively states that long-term value creation is the major goal of corporate governance mechanisms. The supervisory board and the management board are put in place to ensure that this goal is achieved. It states that: “The management board is responsible for the continuity of the company and its affiliated enterprise. The management board focuses on long-term value creation for the company and its affiliated enterprise, [...] The supervisory board monitors the management board in this”.⁶¹

In addition, the 2015 Basel Committee on Banking Supervision’s corporate governance principle for banks provides that the goals of effective corporate governance are to achieve and maintain public trust and confidence in the banking system. This is pivotal to the suitable functioning of both the banking sector and the entire economic system.

⁵⁹ Financial Reporting Council (n 5).[1].

⁶⁰ *ibid.*

⁶¹ The Dutch Corporate Governance Code Monitoring Committee (n 4).[13].

At this point, arguably, corporate governance standards in PCBs should be clear in formulating their main objectives. In order to do so, the standards should take into account the importance of PCBs' business sustainability, PCBs' objective to serve small and medium enterprises and people in rural areas, and the fact that PCBs need to have a clear direction in managing their governance. Therefore, the main objectives of corporate governance standards for PCBs are to ensure the sustainability of PCBs' business, to direct PCBs in implementing good corporate governance, to contribute to the enhancement of the banking industry's stability, and to encourage PCBs to provide accountable services to small and medium enterprises and people in rural areas. These objectives should be integrated into the beginning of the IFSA's regulations concerning corporate governance standards in PCBs.⁶² This will offer a clear path for PCBs in implementing corporate governance standards.

Conclusion

This article has shown that the promulgation of IFSA regulations on corporate governance and risk management for PCBs in 2015 was a strategic step in formulating better corporate governance standards in PCBs. However, there are two main flaws identified in the two regulations with regard to the unfinished definition of corporate governance and the lack of clear goals of corporate governance mechanisms. IFSA simply defines corporate governance as the implementation of the TARIF principles which is not the concept of corporate governance itself, but rather, the general main values of good corporate governance. Meanwhile, in the light of the goals of the implementation of corporate governance in PCBs, IFSA just places them in the consideration part of the regulation and these goals are quite general.

To mitigate these issues, it is suggested that corporate governance in PCBs should be defined as a mechanism where board of PCBs direct and control PCBs effectively by considering and aligning all PCBs legitimate stakeholders' interests

⁶² Yafet Yosafet Wilben Rissy, 'Corporate Governance in People's Credit Banks in Indonesia: A Challenge for a Better Future' (n 1).[106].

to achieve PCBs long-term success. It is also recommended that the goals of implementing corporate governance should also be formulated and explained clearly in the provisions (the body of the regulation), not in the consideration part of the regulation. In the PCBs context, the goals of corporate governance mechanism could be to ensure the sustainability of PCBs' business or long-term success of PCBs, to direct PCBs in implementing good corporate governance, to contribute to the enhancement of the stability of the banking industry, to help PCBs to comply with regulations and/or business ethics, and to encourage PCBs to provide accountable services to small and medium enterprises and people in rural areas in Indonesia.

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Charles P. Oman, 'Corporate Governance and National Development' (2001) 180 <<https://www.oecd-ilibrary.org/docserver/113535588267.pdf?expires=1583983413&id=id&accname=guest&checksum=AED124C0FF1F4A2E16CCAB4F98>>.

Diane K. Denis and John J. McConnell, 'International Corporate Governance' (2003) 38 *Journal of Financial and Quantitative Analysis*.

Djoni S Gazali and Rachmadi Usman, *Hukum Perbankan* (Sinar Grafika Press 2010).

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