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# Implementation Of Good Corporate Governance In The Management Of Rural Banks In The District Sidoarjo

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**Abstract** - The role of Rural Banks is very large in developing Micro, Small, and Medium Enterprises (MSMEs) in Indonesia. MSMEs are large absorbers of labor and play an important role in economic growth in Indonesia. Government through Financial Services Authority (OJK) Regulation No. 4/POJK.03/2015 obliges Rural Banks to implement Governance. Corporate Governance is an internal control system that aims to manage its significant risks to meet its long-term business objectives. This study aims to see how the implementation of Good Corporate Governance (GCG) in the Management of Rural Banks in Sidoarjo Regency, using a qualitative approach. This research uses observation methods in the form of in-depth interviews, participant observation, and a list of questions that informants need to fill in. The results showed that the observed People's Credit Banks had implemented Governance following the Financial Services Authority (OJK) Regulation, seen from 5 pillars: Transparency, Accountability, Responsibility, Independence, and Fairness. The applied GCG also includes planning, management, and operational control of Rural Banks. Fulfillment of the required reports does not prevent fraud from occurring. With the implementation of GCG for Rural Banks, there is still a need for synergy between the Compliance Department and Internal Audit. As for the advice for the OJK as a policymaker, it is better to simplify the requested reports without reducing the risk of fraud so that Rural Banks can carry out their company operations optimally while still implementing good Governance, with the hope that Rural Banks can maintain Going Concern.

**Keywords** - Rural Banks, MSME, Good Corporate Governance

## I. INTRODUCTION

On March 31, 2015, Good Corporate Governance (OJK) issued regulation no. 4/POJK.03/2015 concerning Implementation of Governance for Rural Banks. Governance needs to be implemented because of the increasingly complex risks and challenges faced by Rural Banks, both from internal and external parties. Besides, the implementation of Governance through independent parties can improve the balance of the supervisory function optimally. Committee members as independent

commissioners and independent parties must be free from conflict of interest (Effendi, 2016).

This study was conducted because of differences in the results of several researchers, such as Kangmartono et al. (2018), that corporate Governance affects the financial performance of rural banks. This research is supported by Khan and Ali (2017), Halim et al. (2017), Mahmood and Orazalin (2017), Ali et al. (2018), Lassoued (2018), Al-Malkawi and Pillai (2018), Rosa and Bernini (2018), Jarbou, et al. (2018), Almutairi and Quttainah (2017), Felicio, et al. (2018), John and Ogechukwu (2018), Paniagua, et al. (2018). In contrast, research from Bashir et al. (2018), Chou (2018), and Ghofar and Noviandry (2018) show that corporate Governance does not affect company performance. The difference with this research is using a qualitative approach through observation and in-depth interviews for the implementation of Corporate Governance in the Rural Bank Sidoarjo Regency. The urgency of the research, namely companies that implement good corporate Governance, will minimize the risk of company loss, both in terms of bad credit, and prevent fraud that may occur due to the absence of separation of duties and responsibilities in a company.

## II. LITERATURE REVIEW

Regulation number 4/POJK.03/2015 concerning Implementation of Governance for Rural Banks requires Rural Banks to make annual reports on Corporate Governance to the Financial Services Authority (OJK). The implementation of government regulations at all activities and levels of the organization is an obligation that must be carried out by Rural Banks.

### A. Rural Banks

Rural Banks is a financial institution that carries out business activities to collect funds from people who have excess funds, then channel them to other people who need funds or to entrepreneurs who are in need of capital to expand their business. People's Credit Banks in Indonesia, most of which are companions for MSME entrepreneurs, especially in management, good marketing strategies, so that the MSMEs business is getting bigger and more advanced.



### **B. Micro, Small, Medium Enterprises (MSMEs)**

According to data in 2017, MSMEs contributed to GDP by 60% and absorbed a workforce of 97.02 percent in the same year. As for the definition of MSMEs according to Law no. 20 Article 1 of 2008, namely:

1. Businesses that have a net worth of not more than Rp. 50,000,000,- (Fifty million Rupiah), excluding land and buildings for business premises; or that has annual sales of at most Rp. 300,000,000,- (Three hundred million Rupiah) are referred to as Micro-Entrepreneurs.
2. Businesses that have a net worth of more than Rp. 50,000,000,- (Fifty million Rupiah) up to a maximum of Rp. 500,000,000,- (Five hundred million Rupiah) excluding land and buildings for business, or have annual sales of more than Rp. 300,000,000,- (Three hundred million Rupiah) up to a maximum of Rp. 2,500,000,000,- (Two billion five hundred million Rupiah) are referred to as Small Entrepreneurs.
3. Businesses that have a net worth of more than Rp. 500,000,000,- (Five hundred million Rupiah) up to a maximum of Rp. 10,000,000,000,- (Ten Billion Rupiah) excluding land and buildings for business, or have annual sales of more than Rp. 2,500,000,000,- (Two Billion Five hundred million Rupiah) up to a maximum of Rp. 50,000,000,000,- (Fifty Billion Rupiah) is referred to as a Medium Entrepreneur.

### **C. Corporate Governance**

The internal control system that is implemented to manage significant risks to secure company assets and increase long-term shareholder investment value is known as Corporate Governance. The notion of Governance is related to transparency, accountability, responsibility, independence, and fairness.

To be free from conflict of interest, Rural Banks needs an independent commissioner and other independent parties, in this case, the Compliance Division, which acts as internal audit and risk management and compliance (for KU1 Rural Banks). An independent commissioner is a member of the board of commissioners who has no financial, management, share ownership, and family relationship with other board of commissioners, directors, and controlling shareholder or other relationship that may affect their ability to act independently. Independent parties are parties outside the Rural Banks that are not related to finance, management, share ownership, and family relationships with other board of commissioners, directors, and controlling shareholders or other relationships that may affect their ability to act independently. According to OJK Regulation Number 4/POJK.03/2015.

### **III. METHOD**

This study's research method uses a qualitative approach, namely research based on phenomenology and

humanism, and other philosophies such as empiricism, idealism, and humanism (Bungin, 2007).

The object of this research is 5 Rural Banks in Sidoarjo Regency, East Java. The informants in this study were the management and employees of the People's Credit Bank. Methods of data collection with in-depth and gradual interviews, participatory observation, and a questionnaire guide in conducting interviews. The data analysis techniques used were observation and interviews with informants. The informants were the Rural Banks, including the Board of Directors, the Board of Commissioners, Independent Commissioners, Independent Parties, and all those related to the management of Rural Banks in Sidoarjo Regency.

### **IV. RESEARCH RESULT**

Based on interviews through a compiled questionnaire, it is known that all of the Rural Banks studied belong to KU1. Rural Banks KU1 does not need to have a Remuneration and Nomination Committee, Audit Committee, Risk Monitoring Committee, but is replaced by the Executive Officer (EO) of Internal Audit and EO of Risk Management and Compliance. All forms of accountability reports, especially those prepared by the Board of Commissioners, are conducted every semester and are reported a maximum of one month after the end of the semester. The People's Credit Bank also has work guidelines and procedures for all parts, including work ethics, working hours, as a form of transparency. Directors who serve must meet the minimum criteria of passing D2 and have a certificate of the certificate, pass Fit and Property.

OJK party conducts audits related to Governance at least once a year. The measurement indicators related to Good Corporate Governance are distributed to Rural Banks, namely:

1. Transparency, relating to the disclosure of both financial information and the results of company operations; company objectives, disclosure of members of the board of commissioners and the income earned; Disclosure of risk factors will come concerning credit risk management, operational risk management, and compliance risk management; Corporate governance structure and policies; There is a standard audit report; as well as annual audits conducted by independent auditors.
2. Accountability, relating to individual accountability, both superiors, subordinates, authorized parties, and assignments from the authorities; Team accountability, namely joint accountability in working groups related to the performance achieved; and corporate accountability, namely corporate accountability in performing its role as a business entity.
3. Responsibility can be seen from compliance with laws and regulations; the existence of partnerships with all

stakeholders following statutory limits and sound business ethics;

4. Independent, which means being independent in performing tasks and making decisions, which are carried out independently; in carrying out tasks according to the provisions of the applicable laws and GCG principles; and there are no parties allowed to interfere in company affairs outside the company's organs.
5. Fairness means: the process and procedure of the GMS must receive equal treatment, for all shareholders, according to the composition of shareholders; members of the board of commissioners and directors, as well as managers, must disclose any interest owed to transactions or rights that affect the company, to prevent conflicts of interest (Effendi, 2016: 11-15).

This research also shows that the Rural Banks has carried out a planning function in the form of setting company operational targets and employee performance targets. The management function is related to work guidelines and rules for all divisions, including work ethics, working hours, and meeting regulations. The supervisory function is in the form of a clear separation of duties and responsibilities, for example, between the Board of Directors and the Board of Commissioners, so that there is no Conflict of Interest. Concerning the control function, Rural Banks has carried out routine internal audits and provided recommendations on any audit findings and improvements in the future to reduce the risk of fraud. The role of the audit committee in evaluating the planning and implementation of audits and monitoring the follow-up to audit results has gone well, according to research from Supeno and Islami (2019).

This research is in line with Arif's (2020) research on PT. Brantas Abipraya shows that the company has carried out evaluation and assessment, both internally and externally, and has implemented good corporate Governance. Likewise, research from Harjanti (2019) shows that Rural Banks ABC has implemented GCG following OJK regulations, even though several things must be fulfilled in its organizational structure.

## V. CONCLUSION

The existence of good Governance is beneficial for Rural Banks, but it is more of an administrative nature. According to Bank Perkreditan Rakyat, reports that are required by the OJK make them not focus on carrying out company operations, especially during a pandemic, so that their income is not on target. The implementation of Governance does not necessarily prevent fraud because there is a need for synergy with internal audit. If the audit ability is lacking so that it cannot provide recommendations to the Compliance Department, even if the internal control is good, fraud can still occur. Conversely, if the internal audit ability is good, but the Compliance department does not carry out audit recommendations, fraud could also occur.

Suggestions for policymakers are that reports relating to Governance should be simplified by taking into account managerial risks so that BPR can implement good Governance without having to reduce time to run operations so that the company's survival is maintained.

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