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Corporate Governance in PT Lippo Karawaci Tbk[1]

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Abstract

When mismanagement and misuse run rampant in giant corporations, as in the case of Enron in 2001, good corporate governance becomes mandatory. From the perspective of the agency theory, the separation of capital owners and management must lead to strictly applied good corporate governance. The purpose is to eliminate any disadvantages to the corporation's objective, namely providing added values to all relevant parties. The agency theory also covers two aspects: agency issues and agency costs. The research uses the qualitative approach and data is gathered through extensive interview, secondary data, and bibliography study. Key persons among the sources are selected based on specific criteria. Data validity is obtained through the triangulation technique, and the samples used are PT Lippo Karawaci Tbk and subsidiaries. The results show that governance practices are unique in each corporation, in accordance with their characteristics.

Keywords: agency theory, agency problem, agency cost, corporate governance, expropriation of minority shareholders

Introduction

The fall of Enron in 2001 has underscored the significance of Good Corporate Governance (GCG) in protecting the shareholders. Good and consistent corporate governance will reduce the mismanagement and misuse of company assets. Mismanagement in corporate governance is detrimental to the corporation's objective,

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namely providing added values to all parties relevant to the corporation's operational activities.

The necessity for GCG in each corporation can be viewed using corporation theory and from the agency theory perspective. Corporation theory defines corporate characteristics, while agency theory describes the conflicts. In classic corporation theory, the ones who own the capital are altogether the manager of the corporation, thus there will be no conflict since the two roles are occupied by the same persons or party. Therefore in such condition GCG is not required. This is contrary to the modern corporation theory that views corporation as belonging to the public, since investor participation is allowed. Internal funding is no longer adequate; therefore external funding, obtained by issuing stocks, becomes an alternative. This makes the capital owners and corporation managers to be two different parties that have different interests. In such condition GCG is mandatory.

When a corporation allows investment by investors, capital ownership and corporate management become two separate entities. In capital markets in countries such as the US, stock ownership in a corporation is widely distributed. In Europe and Asia, stock ownerships are usually concentrated on one point. Concentrated ownership indicates that the stocks sold and purchased in open markets do not constitute the dominant amount of stocks, and stock ownership remains in the hands of a group of people or the government. Thus, there are majority stockholders and minority stockholders.

Furthermore, according to post-modern corporation theory, extension of stock ownership leads to the loss of majority ownership. Due to the wide distribution of stockholders inside and outside the corporation, they are difficult to identify. Stockholders who are also corporate owners are separated from corporate management. If these stockholders lack sound business knowledge, a conflict of interests may ensue. Consequently, members of corporate management or agents become a dominant force in corporate control. Such a situation requires GCG (Arifin, 2005). It becomes more urgent when the stockholders, being widely distributed and fragmented into groups, are not in full control of the corporation. The GCG practice will ensure that all parties relevant to the corporate's operational activities are accountable.

The CG concept is introduced by the Cadbury Report in 1992 in order to determine the appropriate measurements for good corporate governance. The concept offers a significant change in corporate governance adjustment, especially in regard to financial reporting and corporate accountability. Some of the generally accepted definitions of corporate governance are shown in Table 1:

Table 1. Definitions of Corporate Governance

No	Definitions of Corporate Governance	Source
1	*...the role of governance is not oriented toward the running of the business per se, but with giving overall direction to the enterprise, with overseeing and controlling the management's executive actions, and with satisfying legal expectations of accountability and regulation from parties outside the corporation.*	Tricker (1984)
2	*...the system through which corporations are directed and controlled.*	The Cadbury Report (1992)
3	*...the structure, process, culture and system that result in the organization's succesful operation.*	Keasey and Wright (1993)
4	*...the process of supervision and control intended to ensure that the company management act in accordance with the shareholders' interest.*	Parkinson (1994)
5	*....the governance of an enterprise is the sum of activities that constitute the internal regulation of the business and are in compliance with the obligations placed on the corporation by the legislation, ownership, and business control. It includes the trusteeship of assets, their management, and their deployment.*	Cannon (1994)
6	*...the relationship between shareholders and corporations, and the way in which shareholders act to encourage best practice (e.g. by voting at AGMs and through regular meetings with the corporation's senior management). Increasingly, this includes a direct action by shareholders, which involve a campaign by shareholders or a group of shareholders to accomplish change in the corporation.*	*The Corporate Governance Handbook* (1996)
7	*"Corporate governance is a set of rules that regulate the relationship among shareholders, corporation management, creditors, the government, employees, and other internal and external stakeholders. The rules pertain to their rights and obligations; in other words, a system regulating and controlling the corporation."*	*Forum For Corporate Governance in Indonesia* (FCGI) (2002)
8	*"The structure with which shareholders, directors, and managers set the company's broad objectives, and the means of achieving those objectives and monitoring performance."*	OECD
9	*"Corporate governance is a process and structure applied by BUMN divisions in improving business success and company accountability, in order to sustain the long-term value of stockholders while still serving the interests of other stakeholders, in accordance with laws, regulations, and ethics."*	Decree from State Ministry of BUMN (2002)

Sources: Solomon (2007) and Researchers (2011)

The various theoretical concepts in Table 1 vary slightly in their definition of corporate governance, but in general they view all stakeholders as important. According to Tricker (1984), corporate governance is not limited to managing the business, but also includes general directives for the corporation through control and supervision of the management's performance. Also a priority is meeting the expectations on accountability from stakeholders outside the organization. In line with Ticker, the Cadbury Report (1992) describes CG as a system that directs and controls a corporation. CG is designed to ensure that directors and managers have accountability toward stockholders. As do Ticker and the Cadbury Report, Parkinson (1994) emphasizes the importance of supervision and control. The mechanism for supervision and control are crucial in ensuring that the corporation management's decisions will benefit stockholders. Control and balance are required to prevent abuse of the corporation's resources and guarantee good performance in the corporation. While Ticker, the Cadbury report, and Parkinson emphasize supervision and control, Keasey and Wright (1993) incorporate culture into their CG concept. They posit that CG as a system is insufficient; therefore they define it as a structure, process, culture, and system that result in the organization's succesful operation. We can therefore deduce that a corporation's operational activities are the functions of the structure, process, culture, and system in practice. The Corporate Governance Handbook views corporation governance as a group of activities that shape the organization's internal rules in order to fulfill the obligations set by policymakers, ownership, and business control.

Based on the above definitions, we may conclude that CG essentially concerns the system, process, and set of rules that regulate the relationships among parties with interests, especially in a narrow sense (the relationships among stockholders, the board of commissioners, and the board of directors) in order to achieve the corporation's objectives. The aim of CG is to regulate the relationships among stakeholders, prevent power abuse, and ensure that errors are immediately rectified. This corresponds to the objective of corporate governance according to OECD, "to create added values for all relevant parties." In achieving the objectives of CG, OECD Principle of Corporate Governance offers the following principles as guidelines:

1. The Basis for Corporate Governance framework;
2. The right of shareholder’s and key ownership function;
3. Equitable treatment of shareholder;
4. The role of stakeholder in corporate governance;
5. Disclosure and transparancy; and

The responsibility of the board.

According to Gillian (2006), the balance sheet model of the firm shows that corporation owners and corporation management are separate entities, which necessitates GCG. The separation between capital owners and management obliges a corporate governance that can create mutual trust. Capital owners entrust their assets to be professionally managed by competent hands that are, in turn, accountable to capital owners. Therefore, corporate governance must adhere to the corporate governance principles that refer to the implementation of GCG principles.

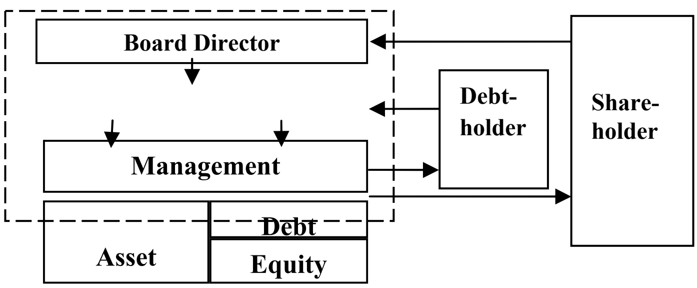

Figure 1. Company Balance Sheet (Gillian, 2006)

According to Gillian, The left side of the balance sheet shows the internal basis for corporation governance. The management's role is that of a manager or agent who decides how capitals are acquired and how to fund them. The funding for capitals is shown on the right side, which consists of funding sources, both internal (issuance of stocks) and external (issuance of promisory notes). The Board of Commissioners is established to supervise the management of capital owners' funds. The members are representatives of capital owners.

A company consists of three groups: stockholders, commissioners, and top management. In accordance with Indonesian law, the important divisions in corporation governance consist of the Board of Commissioners, Board of Directors, and Annual General Shareholder Meeting (RUPS). RUPS is the part of a company with the ultimate power; it holds authority over matters not handled by the directors or commissioners (www.bumn.go.id, 15/2/2011). RUPS facilitates stockholders in taking decisions related to company investment. The decisions taken in the meeting must advance the company's long-term interests. Stockholders are not allowed to interfere in the Board of Commissioners and Board of Directors' duties, functions, and authorities. In traditional corporation theory, stockholders control the direction of the company's policy and activities. Stockholder groups elect members of the Board of Commissioners, and also the Boards of Directors. These highest-ranking leaders will then manage the corporation to serve the stockholders' interests. In closed corporations, stockholders, directors, and commissioners often overlap; on the contrary, in public corporations, usually the supervisory body, the stockholders and the management are distinctly separate groups.

The Board of Commissioners is the highest-ranking division in corporation, function as a supervisory board and its role is to monitor managerial activities. The Board is expected to keep the management activities in line with the capital owners' interests. Muntoro (2011) states that the Board of Commissioners is the corporation body, tasked with conducting general and/or specific supervision and providing advice to the Board of Directors in running the company. Policies within the Board of Commissioners' jurisdiction are strategic and long-term in nature, including monitoring the company's ability in survival, business activities, and developing. On the other hand, the Board of Directors is fully responsible for running the company in service of the company's interests and objectives. It represents the company in and out of the court in accordance with the bylaws of the corporation. Within the Board of Directors is a director appointed to be the head of the limited company (PT). The director can be the company's owner or a professional appointed by the business owner to run and lead the PT.

Stock ownership distribution rate in a company indicates the concentration of its ownership. When a certain group dominates stock ownership, it is a company with concentrated ownership. In contrast, when stock ownership tends to be distributed, it is a company with dispersed ownership. When stock ownership is dominated by a large group, control by minor stock ownership groups tends to be weak. The latter's inability to conduct a supervision is closely tied to "free rider" issues.

Companies in many Asian countries, including Indonesia, are companies with concentrated ownerships. Therefore, company management falls under the authority of stockholders who control the company. The basic problem regarding corporate governance in companies with concentrated ownerships is how to protect minority stockholders from having their rights expropriated by majority stockholders and how the former can act as a controlling force in the company. This problem follows from the assumption that stockholders and controlling forces in the company may only serve their own interests. This includes paying special dividends for themselves, encouraging the company to conduct business with other companies under their control, and working on speculative, high-risk projects or transactions, the consequences of which may have to be borne by other stockholders or investors (Muntoro, 2011)

Agency problem arises when capital owners (principals) are separated from company management (agents) in their capacity as major business actors. According to Welbourne et al., in Obaid (1997): "Agency theory is concerned with the general problem of delegation, a situation in which the principal engages another individual or agent to perform tasks on behalf of the principal." In companies that have gone public, company owners are stockholders or principals, while the company is managed by company management or agents. The delegation of authority from principals to agents obliges agents to be accountable for their actions. However, both principals and agents have bargaining positions. As capital owners, principals have the authority to access the company's internal information. Agents, who organize the company's business activities, are informed of the company's actual and complete operations and performance. Nevertheless, company management does not have absolute authority in taking strategic, long-term, and global decisions. The reason is that the decisions still fall under the authority of principals as company owners.

In addition, according to Jensen and Meckling (1976) and Fama and Jensen (1983), principals and agents are in conflict with each other. "A problem exists when principal and agent have conflicting goals, as is the case with managers and shareholders of large public corporations, where the manager is typically not the majority shareholder." This implies that principals (capital owners) and agents (company management) have different and opposing positions, functions, interests, and backgrounds. Both sides stand in mutual need of each other, but in practice their interests and influences inevitably contradict and affect one another. Both principals and agents are assumed to be *homo economicus* and tend to acquire the maximum amount of benefit. In relation to this agency theory, Eisenhardt (quoted in Sarwoko, 2003) defines three types of assumption groups on which the theory is based. (1) Assumption on humans - humans is assumed to constantly pursue or prioritize their own interests. (2) Assumption on organizations - it is assumed that, within an organization, there will always be conflicts of purposes among parties with interest in the organization, as well as an exchange of asymmetric information between principals and agents. (3) Assumption on information - information is viewed as a commodity that can be sold and purchased.

Based on the above assumptions, we can see how company management, in their role as agents, can use opportunities to their own benefit. Ideally speaking, the company management must act on behalf of the shareholders' best interest, although it is possible agents will prioritize their own interests by maximizing the use of utilities. Furthermore, agents may also make systematic attempts to obstruct principals in making strategic decisions by providing unclear information. When agents act to serve their own interests at the expense of the company owners' interests, it may be because company management has complete information on the company, while company owners do not. In many literatures, this imbalance in information possession is called asymmetric information (Arifin, 2005). This requires a mechanism that guarantees that all interests will be served (Anandarajah, 2001). Appropriate measurements that can guarantee such a condition are called the corporate governance mechanism. Ross, et al., (1999) propose three controlling devices to be used by stockholders to guarantee that the management act in line with the stockholders' interests: (1) Stockholders elect and appoint the Board of the Commissioners members by way of voting. (2) Contracts with the management and arrangements for compensations should be obligatory, so that the management is motivated to achieve the stockholders' objectives. (3) When stock performance is low, the company will be taken over by another (a takeover).

The principals' efforts to control agents and guarantee that they act in line with the former's interests are not an easy process and can be very costly. The behaviorial differences due to the two groups' divergent interests are called an agency problem. To reduce the problem, stockholders pay a cost known as agency cost. Weston and Brigham (1994) define agency cost as "the cost related to the monitoring of managemental actions, to ensure that they are consistent with agreements in the contract that bind managers, stockholders, and creditors. Agency cost can be the: (1) expenses in monitoring managemental actions (2) expenses in arranging the organizational structure in order to minimize unwanted managerial behavior, and (3) opportunity costs resulting from the loss of opportunity in acquiring profit as a result of limited managemental authority, due to which the management is unable to take a timely decision. This can be avoided if the management is also the company owner." (Weston and Brigham, 1994). Meanwhile, Ross, et al., (1999) interpret agency cost as an expense taken from monitoring costs or the monitoring done by stockholders and costs from the incentives given to managers.

On the other hand, principals as capital owners have the potential to act repressively, as they may consider themselves to have the highest power, being capital providers for the company and the organization's decision-makers with unlimited authority. This may lead to an increasingly heated and prolonged conflict that will harm all sides. Conflict may arise when there are two stockholder groups with significantly different characteristics. Several literatures call it the conflict between majority stockholders and minority stockholders, and majority stockholders have the opportunity to expropriate the minority stockholders' rights in many ways. Information gap, meaning the dominant group has the more comprehensive information, enables the group to make decisions and policies that do not contribute many benefits to minority groups. Prasetyantoko (2008) states that the condition may lead to the expropriation of the minority stockholders' rights. As has been previously explained, theory agency arises from the separation between two groups, capital owners and company management, or majority stockholders and minority stockholders. The weakness of the theory is that it does not incorporate other stakeholders with interests in the company, such as employees and even customers. Incomplete information does not affect only capital owners, but also employees within the company and customers outside the company. Such a situation may threaten the company's growth, or even its credibility before the public.

The current focus in corporate governance reformation in many countries, including Indonesia, is how to empower the Board of Commissioners and turn it into an effective, professional, and more accountable division. The revitalization of the Board's role becomes a strategic aspect, as the Board of Commissioners functions as the supervisor that ensures good corporate management. As in state governance, corporate governance is a basic component in management. The Board of Commissioners must be excellent not only in quality but also in regard to quantity. A more general review shows that the Board's role in corporate management contributes to the company's long -lasting survival (Colley et al., 2003). The review on the importance of the Board's quality shows that, in a company that has survived for a long time, the Board of Commissioners is usually able to solve the company's problems. Doyle (in Colley, et. al., 2003) states that, in companies with poor performances, the Board of Commissioners are unable to solve problems effectively. Reviews on the Board of Commissioners' quantity usually involve company performance, as in the researches conducted by Teen (2006). Researches in Australia by Kiel and Nicholson (2003) show that the bigger a company, the more members there are in its Board of Commissioners. There are also more independent commissioners, and the President of the Board of Commissioners and President Director are often two different persons. The role separation is intended to optimize the Board of Commissioners' role as the supervisor and controller of the company. In Indonesia where double tiers are adhered, the duality condition becomes impossible. Thereore, the study on the board governance does not include the indicator of duality.

The Board of Commissioners becomes the main focus as their main task is to protect the stockholders' interest, as dictated by the mandate from capital owners, by representing their interest in the business. Therefore, the Board of Commissioners' principal duty is to protect the interest of all stockholders and assist the company in maximizing its economic value. The Board elects and appoints executives to run the company (Anandarajah, 2001), and is obliged to provide guidance and counseling to company management. In addition, the Board of Commissioners is responsible for laying out company strategies, obtaining maximum return for stockholders, preventing conflicts, and handling the demands toward the company in a balanced manner (Guido and Alessandro, 2006).

The importance of the Board of Commissioners' role is closely tied to its inherent nature. Previous literatures in general divide the Board's characteristics into three categories: composition, structure, and board process (Guido and Alessandro, 2006). The Board's composition is measured by its size and the proportion of independent directors. The Board's structure is viewed through the Chief Executive Officer's (CEO) dual positions and presence of board committees. The research by Chen, et al. (2006) confirms the importance of composition and meeting frequency in the Board of Commissioners. The proportion of independent commissioners, frequency of meetings, and tenure of board members indicate the fraud in the board. In support of his research, Chen compares companies that have experienced fraud with companies that have not. It is a valuable research in formulating the characteristics of Boards of Commissioners in companies going public in China. Almost all countries define the Board of Commissioners' role as the manifestation of its obligations. On the normative level, the Board of Commissioners' obligations concern fiduciary matters, loyalty, and supervision. In its main function as the supervisor of corporation management, all matters related to the Board of Commissioners become the main focus in corporation governance. In general, an accountable Board of Commissioners is an indicator of the corporation's accountability.

Basically, corporate governance is a check and balance system that internally and externally guarantees the corporation's accountability to all stakeholders; it is also socially responsible in all areas related to the corporation's business activities. That having been said, the research conducted by Kurniawan and Indriantoro (2000; in Arifin and Rachmawati, 2006) indicates the poor corporate governance practices in Indonesia. (1) Due to the family-dominated ownership structure, small investors receive little protection. (2) The Board of Commissioners hasn't entirely fulfilled its role in voicing the aspiration or interests of non-majority stockholders. (3) An audit committee is not yet obligatory, therefore the quality of financial reports tends to be dubious. (4) Fair business is yet to be widely practiced. (5) The rates of transparency and disclosure are low. (6) Risk management practices need to be improved. (7) Creditors are yet to receive full protection. Other researches show that governance practices vary according to each corporation's ownership structure. Therefore, it can be assumed that governance practices differ from corporation to corporation, and result in different characteristics and problems.

Djalil's (2006) review states that the crisis in Indonesia is caused by the lack of good corporate governance in many corporations. This situation is exacerbated by an unhealthy economic concentration. As an illustration, based on data from 1996, the top of the economic structure pyramid in Indonesia is occupied only by 200 private conglomerates (consisting of about 50 families) dan 100 large-scale state-owned enterprises. Bapepam Report in 2004 confirms this by showing that most of the companies listed in the Indonesian Stock Exchange (BEI) are owned by families and the state. The middle level of the pyramid is nearly empty, and on the lowest level there are about 39 million small-scale economy actors and cooperatives, including informal sectors (Djalil, 2006). This imbalance, according to Djalil, contributes to the current economic condition in Indonesia. Morck (2007) calls this type of economic structure the pyramidal business group. The pyramid's structure is characterized by a condition where companies, both those that have gone public and those that have not, are dominantly controlled by a group of people. Nam, Kang and Kim (2001) state that the main characteristics in many Asian corporations are a high level of concentred ownership and a group of people dominantly controlling the corporations.

Governance issues are basically caused by the difference in interests among parties involved with the company. Governance issues in a private enterprise are naturally different from governance issues in state-owned enterprises. Suad Husnan (2000) states that governance issues differ in accordance with the characteristics of each corporation, which also determine the obstacles and challenges in GCG practices. In general, however, business actors are aware of the importance of identifying the obstacles, as poor GCG practices are detrimental to the corporation's survival.

GCG practices are crucial in public companies, where transparency and accountability are mandatory. PT Lippo Karawaci Tbk is a public company and part of a large family corporate conglomeration in Indonesia. The choosing of PT Lippo Karawaci Tbk is based on its unique characteristic: it is one of the business groups that started from family business and later develop into public business. The success of the corporation is proven by its form as a limited company with the most integrated Business Model in Indonesia Property Sector with the transformational achievement of:

1. Transforming US $ 3 billion to US $ 8 billion in 5 years
2. Improving performance and promoting double Lippo Karawaci's market capital in short term. Building significant 'leadership premium".
3. Globalizing investor based Lippo Karawaci.
4. Strengthening residential/township group.
5. Building transformational hospital group scale up to USD3.5 billion in 5 years.
6. Building a USD3.5 billion assets management/REIT group in 5 years.
7. More focusing on assets-turn deals. Realizing maximum value for hotel group. Building strong recurring extraordinary earning.

The company has taken a significant, transformative step, which begins when the company owners decided to sell part of their stocks to the public. This is a stage where the company transforms from a closed corporation to an open one: a company with limited ownership (jointly owned only by a certain group) changes into a company with open ownership (jointly owned by stockholders). Initially a family company, the company has become a public one. Starting from this point, GCG principles must be applied in company management, in order to be able to compete with other companies; this means the transformation is absolutely necessary if the company wishes to compete on the international level.

Research Method

In this research, the qualitative method is used to answer the research question. Qualitative method is used to quarry the characteristic of governancein a corporation. According to Suad Husnan, each company has differentgovernance in accordance with the unique characteristics of thecompany. Therefore, the research intends to to quarry on thecharacteristics and implementation of governance in PT Lippo Karawaci Tbk.

The data are gathered through bibliography study, secondary data and extensive interview with key persons. The key persons chosen as the source are among others:

a. The Company Founder as the owner and founder of the corporation, in order to learn his commitment and understanding of the importance of GCG in a limited company;
b. The Independent Commisioner as a Representative of Minority Shareholder, in order to find out whether the role as as the Representative of Minority Shareholder can be well implemented or not;
c. The Representative of the Board of Commissioners, in order to find out the practice of GCG in the corporation related to its role as the monitoring board in the corporation;
d. The Representative of the Board of Directors, in order to learn the management practice in the corporation;
e. The Representative of Employees, in order to find out whether their rights and obligations as employees are fulfilled within the business activities of the corporation;
f. And the Corporate Secretary, in order to learn whether her role has been well implemented in the corporation.

Data reliability and validity is obtained through the triangulation technique and depends on consensus from key informants or stakeholders. Other sources include Bylaws of the Corporation and other corporation documents, Interim and Annual Reports, stock ownership documents, written reports, published and unpublished researches, published and unpublished biographies, books, periodically published articles on the corporation, the corporation's governance reports, and memos from important meetings.

Result and Analysis

PT Lippo Karawaci Tbk understands the importance of good governance in achieving high and sustainable company growth. As part of its responsibility toward all stakeholders, the company management adheres to and implements Transparency, Accountability, Responsibility, Independence, and Fairness (TARIF) as the key principles. The commitment is made clear in an interview, as quoted below:

> *"As a company that has gone public, we must comply with government regulations by following standard rules in company management."*

Transparency

The transparency principle emphasizes the importance of openness in all company aspects related to public interest. The management must be open and information must be relayed in an accurate and punctual manner to all stakeholders, by publishing periodical financial reports (quarterly, semiannually, or annually), so that information pertaining to the company's business activities can be accessed by all. The information is available on the company website and IDX. The information taken from the corporate website is among others:

a. Information on the corporate vision and mission, milestone, management team, shareholder information, corporate governance, corporate social responsibility and company activities.

b. Information on the business unit consisting of urban development, large scale integrated development, retail mall, healthcare, hospitality and infrastructure, property and portofolio management, investor center and news/events of the corporation.
c. Information related to the investors. Consisting of financial highlight, annual report, financial statement and company presentation.

The website helps reinforce transparency in company management; this is in accordance with OECD's requirements for an accurate, punctual, and transparent disclosure of all information crucial to company performance, ownership, and stockholders. The Corporate Secretary is established in order to ensure the company's compliance to the transparency principle. It has a strategic role in maintaining the company's relations with stock market regulators, stockholders, the local community, and others, as well as the company's compliance with stock market regulations. Jenny Kuistono occupied the position from 2004 to 2009.

Accountability

As a public company, PT Lippo Karawaci Tbk must comply with the Bylaws and Laws for Limited Companies. Furthermore, it must also comply with the various regulations issued by the Indonesian Stock Exchange (BEI) and Singapore Stock Exchange (SGX), where PT Lippo Karawaci Tbk is listed as an open corporation. The company also regularly provides credit rate information to the public. On December 31, 2009, the credit rate for the company was B1 from Moody's, B from Standard & Poor's, and B+ from Fitch. The company management's accountability is indicated by the divisions' tasks and functions. The company's divisions form a GCG structure which ensures that GCG is applied to all operational and strategic activities. The company's core GCG division consists of the Annual Meeting of Stockholders, the Board of Commissioners, the Board of Directors, and committees (Audit Committees and Remuneration Committee). These committees have vital roles in GCG implementation and carry out their functions, tasks, and responsibility in an independent manner. Below are descriptions of the tasks and responsibilities of the company's governance divisions:

Annual Meeting of Stockholders (RUPS)

In order to ensure that all stakeholders are represented, various strategic decisions are taken during the Annual Meeting of Stockholders. The company adheres to Regulation IX.I.1 on the Planning and Presentation of annual stockholders meeting (RUPST) or Extraordinary RUPS (RUPSLB). RUPS is intended to facilitate all stockholders in voicing their opinions. 3 RUPS were held in 2010: RUPST on May 3, 2010, RUPSLB on the same day, and RUPSLB on November 29, 2010. The decisions taken in RUPS are then reported to Bapepam-LK and BEI, and publicly announced in national newspapers and through BEI.

The following agreements are reached in the annual RUPS on May 3, 2010: (1) The company's financial report at the end of the fiscal year (December 31, 2009) is approved. It has been audited by Aryanto, Jusuf, Mawar, and Saptoto, and their opinion on the report is *unqualified*. (2) The meeting agrees not to distribute dividends and allocate Rp. 1,000,000,000 for reserve funds and Rp. 387,053,495,627 as undivided profit. (3) Members of the board of commissioners, the board of directors, and independent commissioners are appointed.

The following agreements are reached in the Extraordinary RUPS on May 3, 2010: (1) The company's plan to issue a bill of exchange valued at Rp. 2,443,620,749,632 is approved and authorized. The bill will be offered for trade at the Singapore Stock Exchange with a fixed interest rate of 9-9.5% per year, and the due date is in 2015. The bill will be exchanged with USD 250,000,000 and the remaining amount will be spent on assets (construction, hospital development, and others). (2) Current notes are exchanged with new notes with due date in 2015.

The following agreements are reached in the RUPS on November 29, 2010: (1) The plan for the third stage of right issues with preemptive rights is approved. The value is Rp. 4,325,537,924 (Rp. 550 per issue). (2) The change in the company's article of association is approved in order to increase company assets, authorized at Rp. 6,400,000,000,000 with paid-up capital as the result of the third right issues.

The Board of Commissioners

In line with the supervisory requirement for the company, and taking into consideration the company's business complexity, in the RUPST on May 3, 2010, members of the company's board of commissioners are appointed (Table 2). The board consists of a President Commissioner, whose task is to coordinate the board's activities; a Deputy Commissioner as the President's representative, who is also an Independent Commissioner; and six board members, five of whom are Independent Commissioners. The task of suggesting the names of Independent Commisioner is so far assumed by the Remuneration Committee who at the same time is responsible to improve the quality of the management of the limited company through the development of effective nomination mechanism and remuneration. The recommendation of name lists that meet the requirement is based on the achievement as well as the contribution toward the growth of the corporation.

Table 2. Hierarchy of the Board of Commissioners in 2010, PT Lippo Karawaci Tbk

Position	Name
President Commissioner	Theo Sambuaga
Deputy Commissoner	Surjadi Soedirdja
Independent Commissioners	Agum Gumelar
	Abeng
	Farid Harianto
	Adrianus Mooy
	Jonathan L. Parapak
Member	Vivien G. Setiabudi

The Board of Commissioners hierarchy for PT Lippo Karawaci Tbk as described above has fulfilled the regulations stated in the Circular from the Head of Bapepam-LK No. SE-03/PM/2000 and BEI regulation No. IA: In a public company, at least 30% of the members in the Board of Commissioners must be independent (Independent Commissioners). In PT Lippo Karawaci TBK, 62.5% of the board members are Independent Commissioners. They play an essential role in the company as they represent public interest through the supervision of company management.

To account for its tasks and authorities, the Board of Commissioners submits a Task Report of the Supervision by the Board of Commissioners. It contains reports of the board's supervision at the year's end, is submitted to stockholders, and authorized in RUPST. The board's meetings are held at least once a year according to necessity. In 2010, there were five Board of Commissioners meetings. A meeting is led by the President Commissioner; if absent, he or she is replaced by a member chosen by and from among the attending members. Absent board members may be represented by another member only after a letter of delegation is obtained. A Board of Commissioners meeting is valid and authorized to take binding decisions after more than half of the members are present or represented in the meeting.

In the decision-making process in a Board of Commisioners meeting, the decisions are a general consensus reached after deliberation. When members are unable to arrive at a consensus, more than half of the valid votes are required to reach a decision. When the vote result is 50:50, the decision will be determined by the leader of the meeting.

The Board of Commissioners is assisted in its tasks by several committees whose members are select experts. Currently PT Lippo Karawaci Tbk has an Audit Committee and Remuneration Committee, whose special functions and tasks are set by the Board of Commissioners. Audit Committee and Remuneration Committee members may later become Independent Commissioners and members of the Board of Commissioners.

Thus far the Board of Commissioners has done exemplary work as a supervisory board, as stated in an interview with Theo Sambuaga:

> "*There are no stockholders in the management or in the board of commissioners. Therefore, the commissioners are responsible for daily supervision, and some of the members are independent. So the openness principle is clearly in practice here, and commissioners supervise the business daily. In accordance with the management, the commissioners and directors are held accountable by shareholders. That's the main point.*"

The indicator used to measure the supervision process by the Board of Commissioners is the members' presence in the meetings. Table 3 shows the members' attendance list in the five meetings during 2010:

Table 3. The Board of Commissioners' Attendance List in Meetings

No.	Schedule	Percentage
1	Feb-12-2010; Lippo Village	100
2	May-25-2010; Aryaduta Hotel and Lippo Village	100
3	Jul-29-10; at Lippo Village	75
4	Sep-2-2010; St. Moritz	75
5	Oct-8-2010; Kemang Village	87,5

From the above table, we can conclude that, in general, members of the Board of Commissioners are aware of their responsibility as supervisors. Agreements reached at the meetings are recorded in the minutes, which are then submitted to the Board of Directors for evalutional purposes. The Board of Commissioners is assisted in their task by two committees, the Audit Committee and the Remuneration Committee.

The detailed information concerning the attendance of the Commisioners Board members in each meeting is as follow:

Table 4. The Detail of Attendance List of Commisioners Board Members in 2010

No.	Date/Venue	Meeting Agenda	TLS	SS	TA	AG	FH	JP	AM	VS
1	12 February 2010 Lippo Village	1. Confirm the outcomes of the BOC Meeting, held on 27 October 2009 2. Audit Committee Report 3. Approve the Financial Statement of the Year 2009 4. Report business update from the BOD 5. Other agenda	1	1	1	1	1	1	1	1
2	25 May 2010 Aryaduta Hotel Lippo Village	1. Confirm the outcomes of the BOC Meeting, held on 12 February 2010 2. Audit Committee Report 3. Approve the Financial Statements for three months ended in 31 March 2010 4. Report business update from the BOD 5. Other agenda	1	1	1	1	1	1	1	1
3	29 July 2010 Lippo Village	1. Confirm the minutes of the BOC Meeting, held on 25 May 2010 2. Audit Committee Report 3. Approve the Financial Statements for six months ended 30 June 2010 4. Report business update from the BOD 5. Other agenda	1	1	0	0	1	1	1	1
4	2 September 2010 St. Moritz	1. Report business update from the BOD 2. Approval on campuses; initiatives	1	1	1	0	1	0	1	1
5	8 October 2010 Kemang Village	1. Confirm the outcomes of the BOC Meeting, held on 29 July 2010 2. Audit Committee Report 3. Approve the Financial Statements for nine months ended 30 September 2010 4. 2010 Outlook and 2011 Budget 5. Report business update from the BOD 6. Other agenda	1	1	1	1	1	1	1	0

TLS - Theo L. Sambuaga **SS** - Surjadi Soedirdja **TA** - Tanri Abeng **AG** - Agum Gumelar **FH** - Farid Harianto
JP - Jonathan L. Parapak **AM** - Adrianus Mooy **VS** - Viven G. Sitiabudi
0 - Absent **1** - Attend

Source: The report of Corporate Governance year 2010, p. 77

Audit Committee

The audit committee's function is to improve the quality of the financial reports in accordance with the generally accepted accounting principles. In support of the task, the committee is authorized to acquire relevant information from the company, such as internal audit reports. It is also authorized to acquire all relevant informants pertaining to company audit, and to communicate with internal and external auditors in order to develop an extra perspective. In 2010, the Head of the Audit Committee is Adrianus Mooy, and the members are Isnandar Rachmat Ali and Lie Kwang Tak. The position of Adrianus Mooy at the moment is as the Head of the Committee and an Independent Commissioner altogether. Born in 1963, Adrianus Mooy is elected as the Head of the Audit Committee due to his solid background as a financial expert and his previous position as the Governor of Bank Indonesia (1988-1993). In addition, he is a member of the Board of Commissioners in the Lippo Group since 1996. Table 5 shows the audit committee members' attendance list in meetings

Tabel 5. The Audit Committee's Attendance List in Meetings

No.	Schedule	Percentage
1	Feb-12-2010; Lippo Village	67
2	May-25-2010; Lippo Village	67
3	Jul-29-2010; Lippo Village	100
4	Oct-8-2010; Kemang Village	100

The above table shows that initially the percentage of member attendance exceeds 60%. Later it increases and the last two meetings in 2010 were attended by all members.

The following table is the detail of meeting attendance and agenda from the Audit Committee in 2010:

Table 6. List of attendance of audit committee

No.	Date/Venue	Meeting Agenda	TLS	JT	JA
1	12 February 2010 Lippo Village	1. Approval of the Minutes of Meeting dated 26 October 2009. 2. Discussion on the Financial Statement as of 31 December 2009 by external auditor. 3. Discussion on the Internal Audit Report for the 4th Quarter of 2009. 4. Internal Audit Work Plan.	1	1	0
		A new Audit Committee was appointed by the GMS on 3 May 2010			
			AM	LKT	IRA
2	25 May 2010 Lippo Village	1. Approval of the Minutes of Meeting dated 12 February 2010. 2. Discussion on the Financial Statement as of 31 March 2010. 3. Discussion on the Internal Audit Report for the 1st Quarter of 2010.	1	1	0
3	29 July 2010 Lippo Village	1. Approval of the Minutes of Meeting dated 25 May 2010. 2. Discussion on the Financial Statement as of 30 June 2010. 3. Discussion on the Internal Audit Report for the 2nd Quarter of 2010.	1	1	1
4	08 October 2010 Kemang Village	1. Approval of the Minutes of Meeting dated 29 July 2010. 2. Discussion on the Financial Statement as of 30 September 2010. 3. Discussion on the Internal Audit Report for the 3rd Quarter of 2010.	1	1	1

TLS - Theo L. Sambuaga **JT** - Jeffrey G. Turangan **JA** - Jusuf Arbianto
AM - Adrianus Mooy **LKT** - Lie Kwang Tak **IRA** - Isnandar Rachmat Ali
0 - Absent **1** - Attend

Source: The report of Corporate Governance in 2010 p. 79

Remuneration Committee (Remuneration and Nomination Committee)

This committee is strictly mentioned in the corporate governance report as a Remuneration Committee. In fact this committee also serves as Nomination Committee. This is due to the fact that the remuneration arrangement for the corporate officials is based on the meritocracy system in order to promote better achievements. The remuneration giving is expected to reflect the reward upon position as well as expectation to maintain excellent performance. The committee is established in accordance with Law No. 40/2007 Article 96 on Limited Companies. The authority to settle on the amount of the board members' salary is regulated in RUPS (Law No. 40/2007 Article 96). After the authority is conferred to the Board of Commissioners, the Board is then allowed to establish a Remuneration Committee with members from the Board of Commissioners. The Committee assists the Board of Commissioners in setting up the appropriate mechanism for nomination and remuneration based on meritocracy and contribution to the company. In regard to the employee appreciation system, Lippo Karawaci has applied the Reward and Recognition System. It regulates an integrated compensation system which incorporates the highest-ranking leaders down to the lowest-ranking staff in the organization. Members of the remuneration committee are Theo L. Sambuaga, Farid Harianto, Jonathan L. Parapak, and Vivien G. Setiabudi. Theo, the President Commissioner, is also a Remuneration Committee member, as are two of the Independent Commissioners (Farid Harianto and Jonathan L. Parapak), to even out the decision-making process. From the members of the committee it is seen that there is no member outside the Board of Commisioner. However the governance structure of PT Lippo Karawaci Tbk is unique since almost all members of the Board of Commisioner are Independent Commisioners, chosen professionally, except for Vivien. Therefore the membership of Remuneration and Nomination Committee can be considered to have performed their duties professionally.

The committee held a meeting only once during 2010, to discuss the remuneration for the members of the Board of Commissioners and Board of Directors.

Board of Directors

The Board of Directors is a company division whose function and responsibility is to manage and be in charge of the company, and maximize the resources in order to increase operational profitability toward an end result where the company's value increases in a sustainable manner. The board's responsibility and authority, from company management, risk management, to GCG implementation, is regulated in the bylaws of the corporation. However, the board's authority is limited, in that it requires permission from the company's board of commissioners for matters related to lending and borrowing money on the company's behalf, the disposal of the company's fixed assets, offering the company's real estate as collateral, adding assets to or reclaiming assets from other companies, right transfer or removal, or offering more than 50% of the company's net assets in one year as loan security. Furthermore, the Board of Directors' decisions regarding the following have to be pre-approved: material or conflict interest transaction as defined in Stock Market Regulations; transferring or offering 50% or more of the company's net assets as loan security; revising the bylaws of the corporation; combining, merging, taking over, dissolving, or liquidating the company. Below is the hierarchy of the Board of Directors in 2010:

Table 7. Hierarchy of the Board of Directors in 2010, PT Lippo Karawaci Tbk

Position	Name
President Director	Ketut Budi Wijaya
Directors	Tjokro Libianto Jopy Rusli E. Yudhistira Susiloputro Djoko Harjono

During 2010, the Board of Directors held ten meetings with the following details:

Table 8. The Board of Directors' Meeting Attendance List

No.	Schedule	Percentage
1	January 7, 2010	60
2	February 8, 2010	80
3	February 22, 2010	80
4	March 8, 2010	60
5	April 5, 2010	100
6	July 20, 2010	100
7	August 3, 2010	100
8	September 7, 2010	100
9	October 19, 2010	100
10	December 7, 2010	100

The Board of Directors' member attendance in the meetings shows a better frequency in 2010. Out of the ten meetings, 60% are attended by all members. 60% to 80% members attend the remaining 40%. This indicates the members' awareness of their responsibility as the company management.

Table 9. List of Attendance of BOD meeting in 2010

No.	Date	Meeting Agenda	KBW	TL	JR	EYS	DH
1	7 January 2010	1. Approval of the Minutes of Meeting dated 10 December 2009. 2. Discussion on the performance of each business unit. 3. Others.	1	1	1	0	0*
2	8 February 2010	1. Approval of the Minutes of Meeting dated 7 January 2010. 2. Discussion on the performance of each business unit. 3. Others.	1	1	1	1	0*
3	22 February 2010	1. Approval of the Minutes of Meeting dated 8 February 2010. 2. Discussion on the performance of each business unit. 3. Others.	1	1	1	1	0*
4	8 March 2010	1. Approval of the Minutes of Meeting dated 22 February 2010. 2. Healthcare presentation. 3. Lippo Eco-village presentation. 4. Others.	1	1	1	1	0*
5	5 April 2010	1. Approval of the Minutes of Meeting dated 8 March 2010. 2. Discussion on the performance of each business unit. 3. Others.	1	1	0	1	0*
6	20 July 2010	1. Approval of the Minutes of Meeting dated 8 March 2010. 2. Discussion on the performance of each business unit. 3. Others.	1	1	1	1	1
7	3 August 2010	1. Approval of the Minutes of Meeting dated 20 July 2010. 2. Discussion on the performance of each business unit. 3. Others.	1	1	1	1	1
8	7 September 2010	1. Approval of the Minutes of Meeting dated 3 August 2010. 2. Discussion on the performance of each business unit. 3. Others.	1	1	1	1	1
9	19 October 2010	1. Approval of the Minutes of Meeting dated 21 September 2010. 2. Discussion on the performance of each business unit. 3. Others.	1	1	1	1	1
10	7 December 2010	1. Approval of the Minutes of Meeting dated 19 October 2010. 2. Discussion on the performance of each business unit. 3. Others.	1	1	1	1	1

KBW - Ketut B.W. **TL** - Tjokro Libianto **JR** - Jopy Rusli **EYS** - E. Yudhistira Susiloputro **DH** - Djoko Harjono

* Mr. Djoko Hariono joined PT Lippo Karawaci Tbk in his capacity as a Director, with effect from 3 May 2010.

0 - Absent **1** - Attend

Source: Corporate Governance Report Year 2010, p. 82

Internal Audit Division

The internal scope of corporate audit includes the internal and risk controlling as the implementation of Good Coroporate Governance. So far the corporation has no special unit to control risk. The particular function is momentary assumed by the Internal Audit.

Internal audit is also active in helping the Corporate Audit Committee to monitor, evaluate, and give recommendation for internal controlling, and indetify problems as well as avoid or reduce possible risk exposure.

The main role of this division is to judge whether internal controlling system and risk management have functioned well. This includes compliance audit of the entire corporate divisions in obeying the whole regulations, policies, plans, and budget that have been decided by the Board of Directors. This includes the investigation audit on the possibility that indicates mismanagement and misuse of position or manipulation.

The implementation of Internal Audit is based on the annual working plan that has been approved by the President Director and Corporate Audit Committee. The Internal Audit also conduct special audit if it is considered necessary by the President Director. The corridor of auditing refers to the Internal Audit Charter approved by the Audit Committee by considering the Internal Audit Ethic Codes and Internal Audit Professional Practice Standard as well as regulations in effect.

Internal Audit gives report to the President Director and Audit Commision who regularly conducts meetings to discuss and review the internal report as further input for the Commision for its supervising task. However, the data on the numbers of meeting in 2010 cannot be acquired. Nevertheless in the implementation of its job, the Internal Audit is helped by the External Consultant for risk mapping as an initial step to secure integrated risk management. The appointed external consultant that serves as Independent Auditor are consultants from Public Accountant Office Aryanto, Amir Yusuf, Mawar & Saptono in order to fulfill the mandate from the General Meeting of Shareholders. The task of these independent auditors is to audit the books for the running year that ends every December 31.

Independence

The number of Independent Commissioners in PT Lippo Karawaci Tbk's Board of Commissioners has met the requirements stated in the Decree from the Director of the Indonesian Stock Exchange No. Kep-305/BEJ/07-2004, Rule No. IA, on the Listing of Stocks and Other Equity Stocks Issued by Listed Companies. The Decree requires that at least 30% of the Board of Commissioners members must be Independent Commissioners. Until the end of 2010, PT Lippo Karawaci Tbk had five Independent Commissioners or 62.5% of the total members of the Board of Commissioners. No members of the Board of Commissioners or Board of Directors are related by blood to the third degree, both vertically or horizontally, or related by marriage.

Company management is independent and not influenced by or under pressure from other parties. An interview with Mochtar Riady reveals that the company is committed to run an independent business:

> *"Politics are important, but we must keep business and politics separate, so we won't thrive solely because of privileges. Bill Clinton and I were close because James used to be the president director of a large US bank, and when their government issued bonds, we were the ones to underwrite them. When* Pak *Harto had business with Clinton, we were the ones they called. So far we've had a good relationship with the current government. I don't talk too much about my personal life, like my birthday, or when my family members get married, I don't tell anyone. But I'll let you know when this company has its 60th anniversary."*

In regard to the division governance in PT Lippo Karawaci Tbk, the division members must not have positions in the current government in order to ensure the governance divisions' independence. Jonathan L. Parapak and Adrianus Mooy were elected after they no longer held their previous positions as the Managing Director of PT Indosat Tbk and Deparpostel (Parapak) and Governor of BI (Mooy). This also applies to other Independent Commissioners, such as Agum Gumelar, Tanri Abeng, and Farid Harianto. They acquired their positions in the supervisory board after they no longer held positions in the government. Agum Gumelar was the Governor of Lemhannas, Minister of Transportation, and Coordinating Minister for Political, Legal, and Security Affairs. Tanri Abeng was the State Minister of State-Owned Enterprises and President Commissioner of PT Telkom Tbk. Farid Harianto was a special staff for the Vice President of the Republic of Indonesia and an Advisor for the Governor of BI.

In the mean while, the independence on the internal side means that the corporate makes sure that each business unit is managed independently by competent professionals to meet the demand and expectation of the global, regional, and domestic markets in accordance with the GCG principles in effect. The Attitude Guidance, institutionalized since 2000 and renewed in 2005 is a guidance for the entire corporate members' working performance and attitudes, since it also regulates conflict of interests and interdependence.

Fairness

The equality system is a principle where all stockholders and other stakeholders are treated equally. There are two types of equality. First, all stockholders have an equal opportunity to voice their aspirations in RUPS and RUPST. Therefore, minority stockholders are represented by Independent Commissioners. Second, the company recognizes the employees' diverse ideas and creativity, as employees come from various backgrounds. Therefore the company fully supports the fair opportunity culture, where success is determined by values and performance.

The commitment on equality in treating all employees is also emphasized by the President Direcktor of PT Lippo Karawaci Tbk, Mr. Ketut who said:

> *"… here everyone is treated the same, be it the son of Mr. Mochtar or not …. Even so everything must be started from the bottom … work first … if later it is proven good, the the corporate will improve by itself …Each employee with merits will be given satisfiying reward; however those who are left behind will not be directly fired …. Instead they will be given coaching and training in order to improve their merits …"*

The values are the key to the success in attracting employees and maintaining their loyalty. In support of fair opportunity, the company develops an internal communication portal called "the village." It constitutes of various applications, including company rules, accessible to all employees.

The corporation succeeded in achieving the title as one of the best 20 of "Most Admired Company" in 2011 by the Fortune Magazine, the evaluation of which was based on survey technique, both from internal and external point of views. This also proves that the corporate has succeeded in maintaining the best talent from its human resources. Such merit is the result of continuous investment of team building activities in the entire corporate business units.

Discussion

An important conclusion to be drawn from the governance structure described above is that none of the Riady family members occupy a position in a strategic governance division in the company, whether in the Board of Commissioners or Board of Directors. As company founders, the family group owns a major portion of the stocks in all subsidiaries. Mr. Mochtar, the major company founder, is instead the President Director at the Mochtar Riady Nanotechnology Institute. The research by Kiel and Nicholson shows that a larger company tends to have more members in the Board of Commissioners, more Independent Commissioners, and the President of the Board of Commissioners and President Director tend to be two different persons. The current research shows that PT Lippo Karawaci Tbk has the characteristics described in Kiel and Nicholson's research. The number of independent commissioners is quite significant, namely 60%: out of five commissioners, three are independent. Furthermore, in order to reinforce their roles and functions in accordance with the demand of well-applied GCG, the company appoints two different persons as President of the Board of Commissioners and President Director. It is assumed that these separate positions will reinforce the Board of Commissioners' independence and roles as the company's supervisory board. There is a difference between this current research and Kiel: in Kiel's, the composition of the Board of Commissioners is connected to company performance, which is measured by company values. A higher number of independent commissioners means better future values for the company.

Structure-wise, the potentials for conflict resulting from the capital owners' dual position as both capital owners and company management have been minimized, by not allowing stockholders to occupy positions within the Board of Directors. This also applies in all PT Lippo Karawaci Tbk's subsidiaries, where stockholders are not allowed to become members of the Board of Commissioners.

Minority stockholders are represented in the Board of Commissioners by Independent Commissioners. The problem is that expropriation of retail stockholders is still possible due to asymmetric information. Using information to its advantage, company management can profit from corporation actions, such as through unfair mergers or transactions, which may lead to the weakening of minority stockholders' position.

Conclusion

Good corporate governance (GCG) practices become obligatory when a company decides to go public. Stock sale to the public is an alternative funding method when internal funding is no longer sufficient. Funding can also be an issue for companies that are still growing and expanding. PT Lippo Karawaci Tbk is a company that has gone public with multiple subsidiaries and has a wide range of businesses, from property to hospital services.

The dominant ownership in the organization constitutes of five companies and investors with stocks amounting to less than 5%. Two potential conflicts may arise from this condition: expropriation of minority stockholders through unfair and nonstandard transactions, and agents acting on their own behalf. The governance mechanism is implemented as the principal’s effort tocontrol agents and guarantee that they act in line with the former’sinterest i.e. the choosing of the members of the Board ofCommissioners by the share holders in order to conduct the monitoringfunction professionally. Apart from that, the number of independentcommissioners in the Board of Commissioners is more than the minimumnumber as stated in the effective regulation with the purpose ofprotecting the interest of the minor share owners. The AuditCommittee ensures as well that the financial report is composed andpresented in accordance with the principles of accounting in effect.The establishment of Remuneration and Nomination Committee is a second device used to maintain the motivation of the top management in achieving the goals of the share owners since they are responsible topropose the remuneration budget for the members of both Board of Commissioners and Directors. This is also an attempt to reduce theagency problem i.e. the cost related to the monitoring of managerial actions, to ensure that they are consistent with agreements in the contract that bind managers, stockholders, and creditors.

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