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IMPLEMENTATION OF CORPORATE GOVERNANCE AT POSCO

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Abstract: Corporate Governance is a structure consisting of shareholders, directors, managers, a set of objectives to be achieved by the company, and tools that will be used in achieving goals and monitoring performance. This study aims to determine the application and benefits of Corporate Governance at POSCO, using descriptive qualitative analysis methods. The application of the principles of Corporate Governance at POSCO has been carried out since 1997 through the management philosophy of "Corporate Citizenship: Building a Better Future Together". For example, the principle of equality is carried out by POSCO by making stronger shareholder protection through the Cumulative Voting System to strengthen the rights of small shareholders. The principle of independence is implemented through the separation of share ownership from company management, assigning 7 out of 12 members of the BoD (Board of Directors) to be external directors, and to separate the functions of the CEO and Chairman of the Board. The principle of responsibility is applied through the establishment of an audit committee, the Corporate Social Responsibility program. Corporate Governance had earned POSCO many national and international awards.

Keywords: Implementation, Corporate Governance, POSCO.

INTRODUCTION

Increasing profits, expanding business, or adding capital is a goal that is commonly found in companies, but companies have now evolved from something that is relatively obscure to a very dominant world economic institution. The economic crisis is one example due to unethical business practices of companies. According to Wozniak (2011) when identifying practices that reflect business ethics, business actions will then be judged not

based on what is efficient or effective but by what is "morally defensible" (Agoes & Ardana, 2013).

Many large companies in Indonesia were troubled and even bankrupt due to poor corporate governance practices. Examples include government banks that have been liquidated (Bank Pembangunan Indonesia, Bank Dagang Negara, Bank Bumi Daya, Export Import Bank), PT Lapindo Brantas (an oil and gas exploration company in Sidoarjo-East Java), and PT Freeport Indonesia (Papua).

The bankrupt of several government banks was caused by the bank's directors' credit expansion policy was unwise (unprudential credit policy). Large amounts of credit were given without going through a careful and objective study of their business feasibility study. As a result, the government banks are experiencing financial difficulties because the company is unable to repay loans and interest.

The same case happened in PT Lapindo Brantas and PT Freeport Indonesia. Carelessness in conducting oil and gas exploration conducted by PT Lapindo Barantas in Sidoarjo not only caused pollution and environmental damage in a very large area, but also killed off the source of search for most people in the polluted area. At PT Freeport Indonesia, there was a mismatch in salaries and wages between Indonesian workers and workers from other countries whose level was very different, and local workers are generally employed at the lowest level, unlike foreign workers.

The above problems arise due to irresponsible corporate governance, ignoring regulations so as to provide a great opportunity for the emergence of corrupt, collusion and nepotism (KKN) practices. The ease with which conglomerates obtain loans from banks is possible because many directors in government banks are not independent in making policies. There was always interference from government officials. That was not surprising because these directors are often an extension of the interests of certain groups of officials.

Corporate governance plays an important role in creating a culture of awareness, transparency and openness of the company that has an impact on company performance. Corporate governance can be good or bad, effective or ineffective but depends on what is included during the company's practices and also based on the value of the characteristics or qualities associated with it. Poor corporate governance can damage the interests of shareholders, and can lead to business collapse. This article aims to discuss the implementation of Corporate Governance at POSCO.

LITERATURE REVIEW

Corporate Governance Concept

Governance comes from the word 'gubernance' (French) which means control. Furthermore, the word is used in the context of company activities or other types of organizations, becoming corporate governance (Ali, 2020). The Cadbury Committee of the United Kingdom defines Corporate Governance as a set of rules governing relations between shareholders, management (managers) of the company, creditors, government, employees, as well as other internal and external stakeholders relating to their rights and obligations; or in other words a system that directs and controls a company (Cadbury, 2002). In line with the definition of Organization for Economic Cooperation and Development-OECD (in Tjager, et al., 2004) Corporate governance is a structure consisting of shareholders, directors, managers,

a set of goals to be achieved by the company, and tools that will be used in achieving goals and monitoring performance (Agoes & Ardana, 2013). The institutional environment for corporate governance is a part of the overall institutional environment and defines a framework that regulates the coexistence of various stakeholders within the company (James & McGuire, 2016). The company's stakeholders include shareholders, creditors, suppliers, customers, employees, the government and the people who interact with the company.

Table 1. Corporate Governance Concept

1	Scope	Organization (company, social, government)
2	Model	A system, process, and set of rules, including principles, and values that underlie sound business practices.
3	Objectives	<ul style="list-style-type: none"> • Improve organizational performance. • Create added value for all stakeholders. • Prevent and reduce manipulation and significant errors in organizational management. • Increase efforts so that stakeholders are not disadvantaged.
4	Mechanism	<p>Regulate and reaffirm relationships, roles, authority and responsibilities:</p> <ul style="list-style-type: none"> • In a narrow sense: between owners / shareholders, the board of commissioners, and the board of directors. • In a broad sense: among all stakeholders including shareholders, creditors, suppliers, customers, employees, government and communities interacting with the company.

Source: Agoes & Ardana (2013)

Objectives and Benefits of Corporate Governance

According to Tjager, et al (2003) said that there were at least five reasons why corporate governance benefits companies (Agoes & Ardana, 2013), namely:

- Based on a survey conducted by McKinsey & Company shows that institutional investors put more trust in companies in Asia that have implemented corporate governance.
- There were indications of a link between the financial crisis and the ongoing crisis in Asia with weak corporate governance.
- Market internationalization - including liberalization of financial markets and capital markets - requires companies to implement corporate governance.
- Although corporate governance is not the best method to get out of a corporate crisis, this system can be the basis for developing a new value system that is more in line with the changing business landscape.
- Corporate governance practices can increase company value.

According to Indra Surya & Ivan Yustiavandana (2007), the objectives and benefits of corporate governance (in Agoes & Ardana, 2013) are:

- Facilitate access to domestic and foreign investment.
- Obtain a lower cost of capital.
- Providing better solutions for improving the company's economic performance.

- Increase stakeholders trust in the company.
- Protect directors and commissioners from lawsuits.

In line with previous research which shows that the application of corporate governance has a positive influence on company performance such as: 1) Board independence is positively correlated with CSR performance. Finally, CSR performance is positively correlated with company ROA (Pei-Gi & Shu-Jane, 2020); 2) aligning incentives between management and shareholders, board composition, ownership structure, capital market monitoring, auditing, law enforcement and government relations, and other stakeholder pressures have a strong influence on corporate tax avoidance (Kovermann & Velte, 2019); 3) Higher level of investment in companies with good corporate governance practices (Shahid & Abbas, 2019).

RESEARCH METHODS

This research uses descriptive qualitative analysis method. The qualitative method in this study is to analyze and compare theories with their implementation. Data obtained by library research, several books, references on the internet and journals that study similar research to support research on the Effects of the Implementation of Corporate Governance on POSCO Performance.

FINDINGS AND DISCUSSION

Company Profile

POSCO is a multinational steel company with headquarters in South Korea. Founded on April 1st, 1968. As the first integrated steel mill in South Korea, Posco has grown to produce 41 million tons of crude steel per year, and has grown into a global business with more than 190 subsidiaries with more than 65,000 employees operating in 53 countries in the world, including Indonesia, namely PT Krakatau Posco (Cilegon-Banten).

Implementation of Corporate Governance at POSCO

Since the external director was first appointed in 1997, POSCO has sought to maintain an advanced corporate governance structure with the right balance between the Directors and professional management by applying the principles of Corporate Governance through management philosophy namely “*Corporate Citizenship: Building a Better Future Together*”. Kata “*Corporate Citizen*” refers to the company and stakeholders. The goal is to become a valued member of the community, grow with various stakeholders, such as employees, shareholders, customers, suppliers, vendors, and local communities, and pursue values, coexistence and symbiosis.



Source: POSCO (2020)

Picture 1. POSCO management philosophy

This comprehensive and active concept creates symbiotic value in these three fields, namely Business, Society, and People, not just returning the company's profits unilaterally to the community (building a better future together). This concept is in line with the principles of corporate governance, namely equal treatment, transparency, accountability, responsibility.

The application of the principle of equality is carried out by POSCO by making stronger shareholder protection through the Cumulative Voting System to strengthen the rights of small shareholders (March, 2004), the postal voting system (March, 2004), and the electronic voting system (February, 2019) introduced to facilitate shareholder decision making.

Table 2. Details about voting rights are conducted at the 2018 Shareholder’s Meeting (in thousand stock)

Classification	Saham yang diterbitkan	Saham dengan hak suara	Saham diwakili dalam rapat pemegang saham (hak suara dilakukan)	Persentase suara
Domestic	39,772	32,586	23,381	71,8%
Overseas	47,415	47,415	33,731	71,1%
Total	87,187	80,001	57,112	71,4%

Source: POSCO (2020)

The principle of independence is applied by POSCO by separating share ownership from company management. 7 of the 12 members of the BoD (Board of Directors) are external directors, and carrying out an objective and transparent process for the selection and appointment of external directors. For an independent and transparent BoD election, the rules

for the formation of this special committee group were included in the POSCO bylaws. POSCO's board of directors is composed of experts from various background fields such as industry, finance, academia, law, accounting and the public sector. This is to ensure sensible and impartial/fairness management decisions. To promote the diversity of the POSCO BoD composition, the appointment of an external director takes into account gender, race, ethnicity, place of birth, nationality, age, academic background, and expertise, and this principle is widely announced through the POSCO Corporate Citizenship Report and others in the POSCO household.

POSCO also separates the functions of the CEO and Chairman of the Board (2006). This separation was done to increase the independence of the BoD. In addition, POSCO operates five special committees: *the Director Candidate Recommendation and Management Committee, the Evaluation and Compensation Committee, the Finance and Related Party Transactions Committee, the Audit Committee, and the Executive Management Committee*. Four special committees are chaired by an external director. An exception is the Executive Management Committee which is responsible for conducting reviews and considerations in steel business investments. The Audit Committee and the Evaluation and Compensation Committee only consist of external directors to ensure independent board decision making.

Implementation of responsibilities in economic, legal and moral dimensions through the establishment of the Audit Committee. This committee functions independently because all committee members are external directors (chair and committee members). This audit committee operates based on objective criteria (bylaws of the Audit Committee) and procedures established by POSCO, such as regular quarterly meetings and temporary meetings if necessary; completion of audit findings requires the majority of committee members to attend and be approved by the majority of the members present; the proposal agenda can be proposed by the chairman, CEO, or committee member, and the existence of a support department for efficient support, utilizing the internal audit department. The external audit committee appointed by POSCO is KPMG Samjong Accounting Firm. This audit committee also conducts audits for all POSCO business units in domestic and overseas such as in PT Krakatau Posco (a POSCO business unit) using KPMG Indonesia.

For the principles of transparency, accountability and responsibility, POSCO regularly reports annual achievements to shareholders and is officially published on its website. As for the social dimension responsibilities, POSCO carries out Corporate Social Responsibility (CSR) activities to achieve the right balance between social and economic values and to actively participate in overcoming social problems. In 2018, POSCO recorded a total expenditure for CSR of 48,650 million KRW for community investment, donation (overseas & others), and others (POSCO, 2018).

Benefits of Implementing Corporate Governance at POSCO

The Board of Independent Principles applied by POSCO affect CSR performance activities. It can be seen from the large amount of funds donated by POSCO (48.650 million KRW in 2018) which focuses on three aspects namely *community, future generation dan employee participation*. In the Community aspect, POSCO implements programs such as: 1)

Steel Village in Indonesia. Environmental improvement projects for the poor community in areas near the POSCO Steel factory area (ie PT Krakatau Posco) in Indonesia by building houses complete with toilets, public facilities (schools, integrated waste management facilities, etc.); 2) *Construction of Steel Housing in Korea.* Provision of houses with stainless steel construction (exterior and interior) to support fire damage recovery and low-income families in Korea; 3) *Café Oasia.* Social franchise project (small cafe cooperative) to provide employment opportunities for married migrant women who suffer from unstable work; 4) *Silver Home Care.* Home visit care services are provided for seniors with physical disabilities by healthy seniors in the form of cleaning the house, eating and traveling along with emotional support (4 visits per month); 5) *Social Enterprise in Indonesia.* Through PT Krakatau Posco Social Enterprise Indonesia provides employment and job training for young people (for 6 months) for communities who live around the area of PT Krakatau Posco; 6) *Social Enterprise, through POSCO HUMANS, provides management support as a way to offer stable and quality work to the underprivileged.*

In the Future Generation aspect, POSCO implements programs such as: 1) *POSCO Global Youth Volunteers (Beyond).* Beyond is a group of volunteers consisting of students from various backgrounds (age, region, school, department, etc.) with 100 volunteers recruited every year. The volunteers carried out various activities (steel house construction, talent donations, cultural exchanges, etc.) for eight months at home and abroad; 2) *Dream Bridge.* Provides career education programs for high school students living in areas with a high ratio of disadvantaged individuals.

In the aspect of employee participation, POSCO implements programs such as: 1) *Talent Volunteer Group.* POSCO employees carry out various voluntary activities using their individual talents based on professional expertise and personal interests such as photo services for elderly citizens, single-parent families and multicultural families who would otherwise have limited opportunities to visit photo studios; 2) *Sisterhood Villages, 'Sharing Saturday' Volunteer Activities.* Share programs with those who are marginalized in their communities through the One Department for One Village program; 3) *POSCO Employee Global Volunteer Corps.* Travel abroad twice a year to volunteer for POSCO Steel Village development in various countries.

The implementation of corporate governance has led POSCO to become a competitive steel company. Good management through being environmentally responsible is a prerequisite for respecting moral rules and written and unwritten habits that will lead to improvements in the quality of life of stakeholders and sustainable economic development (Kouatli, 2018). This is evidenced by the awards won both nationally and internationally. For example, in the period 2018 to 2019, at the national level POSCO received awards such as the UN SDG Action Award from the Korean Association for Supporting SDGs for the UN, Korea Climate Change Award from the Minister of Trade, Industry and Energy [Energy category], Korea's best companies for shared growth from the National Commission for Corporate Partnerships, Herald Job Awards from the Minister of Trade, Industry and Energy.

For the international level, POSCO received awards such as Steel Industry Leadership award and Metal Company of the Year award from Global Metal Award, world's most competitive steelmaker for 10 consecutive years the WSD steel analysis company version, entered into the Dow Jones Sustainability Index Asia-Pacific for 10 consecutive years.

This result is in line with previous research that the implementation of corporate governance has a positive influence on company performance. Corporate governance is another form of business ethics enforcement in companies and research shows that business ethics has a positive influence on organizational performance (Sabiou, Ringim, Tang, & Joarder, 2019), employee performance through the dimensions of work discipline and morale (Agus, Putri, & Ali, 2016), brand attitude (O.C. Ferrell, Harrision, Linda Ferrel & Hair, 2018). Based on that, POSCO applies business ethics which combines various theories about ethics namely egoism, utilitarianism, deontology, theonomics and virtue. The importance of developing a whole human nature paradigm that integrates and balances physical growth and fulfillment (PQ), intellectual intelligence (IQ), social intelligence (ES), and spiritual intelligence (SQ). By combining and balancing all these dimensions, positive character will emerge. In turn, the quality of this positive character will be the main source of the company's competitive advantage. Combining and balancing all these dimensions will bring out positive characters. In turn, the quality of this positive character will be the main source of the company's competitive advantage. Leaders must have leadership skills to play a key role in ensuring the competitiveness of the company by preventing and eradicating unethical behavior through ethical compliance. In line with previous research that leadership skills (in the form of transformational leadership) have an influence on employee work motivation (Rachul, Ali, & Munawar, 2019; Paijan & Ali, 2017), employee performance (Paijan & Ali, 2017).

CONCLUSION AND SUGESTION

The application of the principles of Corporate Governance at POSCO had been carried out since 1997 through the management philosophy of "Corporate Citizenship: Building a Better Future Together". The aim is to become a valued member of the community, growing with various stakeholders. For example, the principle of equality is carried out by POSCO by making stronger shareholder protection through the Cumulative Voting System to strengthen the rights of small shareholders. The principle of independence is applied by POSCO by separating share ownership from company management, determined 7 of the 12 members of the BoD (Board of Directors) are external directors, as well as carrying out an objective and transparent process for the selection and appointment of external directors and separating the functions of the CEO and Chairman of the Board. The principle of responsibility is applied through the establishment of an audit committee, the Corporate Social Responsibility program. The implementation of Corporate Governance had earned POSCO many awards both nationally and internationally.

This study recommends conducting empirical research using a larger sample and assessing the effect of corporate governance on company performance quantitatively.

Performance measurements such as Tobin's Q as a measure of market research and return on equity (ROE).

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