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REVISITING THE CONCEPT AND GOALS OF CORPORATE GOVERNANCE IN THE INDONESIAN BANKING SECTOR

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Abstract

In 2015 and 2016, the Indonesian Financial Services Authority (IFSA) issued two main regulations respectively on corporate governance for People's Credit Banks (PCBs) and for general banks in Indonesia (the Indonesian banking sector). This article scrutinizes the concept of corporate governance and goals of corporate governance in the Indonesian banking sector in the above two existing IFSA regulations. It is found that in these two regulations, ISFA simply defines corporate governance as the implementation of transparency, accountability, responsibility, independence, and fairness (TARIF) principles by the industry. Basically, such kind of a conceptualization is not appropriate as it does not define the concept of corporate governance itself, but rather, it just reaffirms the general principles of good corporate governance. It is also revealed that IFSA does not clearly provide the goals of corporate governance for the industry. It is recommended that IFSA should re-conceptualize the definition of corporate governance by providing a more concise concept of corporate governance that highlighted in the international best practices and focusing more on the functions of the Indonesian banking sector boards. Meanwhile, the goals of corporate governance in the Indonesian banking sector should deal more with the achievement of long-term success and value creation as indicated in the international best practices on corporate governance.

Keywords: Corporate Governance, General Banks, Indonesian Financial Services Authority, People's Credit Banks, Revisiting.

1. Introduction

Practically prior to the 1997 Indonesian financial crisis and even years after the crisis, the Indonesian banking sector did not have sounder corporate governance standards. For general banks, a systematic and comprehensive effort to formulate corporate governance standards was started after the crises. But it took almost a decade for Bank Indonesia to finally issue the 2006 Bank Indonesia General Banks' Corporate Governance Implementation Regulation. Ten years later, this regulation was revised by the Indonesian Financial Services Authority (IFSA) in 2016 through the promulgation of the 2016 IFSA General Banks' Corporate Governance Implementation Regulation.

Similar to and even much worse than the situation in general banks, prior to 2015, practically, People Credits Banks (PCB) in Indonesia, except some general requirements for the establishment of PCBs boards and their composition as indicated in the 2014 IFSA PCBs' Regulation, did not completely have corporate governance standards. Hence, there was no clear guideline for PCBs to have and implement corporate governance standards (Rissy, 2018; Rissy, 2019). The situation started to change when IFSA issued a key regulation on corporate governance for PCBs through the 2015 IFSA PCBs' Corporate Governance Implementation Regulation.

In the aforementioned two regulations, IFSA tried to define corporate governance for general banks and PCBs (the Indonesian Banking sector) as well as to formulate the goals of the implementation of corporate governance in the industry. Unfortunately, the definition of corporate governance provided by IFSA does not mirror the core meaning of corporate governance itself. At the same time, the goals of the implementation of corporate governance by the Indonesian banking sector that are offered by IFSA do not highlight the crucial destiny of corporate governance practices as accepted globally such as the achievement of long-term success of the companies or the attainment of long-term value creation of the enterprises, for example, as underlined in the 2016 Dutch Corporate Governance Code, the 2016 UK Corporate Governance Code, and the 2017 German Corporate Governance Code. For these reasons, this article attempts to re-conceptualize the notion of corporate governance in the Indonesian banking sector by providing a standard definition of corporate governance and by reformulating the goals of the implementation of corporate governance for the Indonesian banking sector.

This article starts with a literature review of the Indonesian banking sector, their functions and previous research that have been done in the field of the Indonesian banking industry and corporate governance and the gaps. Then, an explanation on the methodology and research questions is presented. The article continues to discuss the development of corporate governance in Indonesian banking sector which underlines the struggle of Indonesian banking sector in facing crisis and scandals due to unsound corporate governance and effort to formulate sounder corporate governance in the banking industry in Indonesia. It then continues with the discussion on the re-conceptualization of the definition of corporate governance in the Indonesian banking sector and the justification on the revisiting of the goals of the implementation of corporate governance in PCBs. Finally, this article ends with providing some conclusions as well as recommendations to mitigate the problems of corporate governance concept and the goals of corporate governance mechanism in Indonesian banking sector.

2. Literature Review

Two sorts of banks are recognized in Indonesia, namely, general banks (commercial banks) and People's Credit Banks (PCBs). General banks and PCBs are conventionally run and based on Sharia principles. The difference, however, is that general banks provide payment transaction services, while PCBs do not (Article 1(2)(3) of the 1998 Banking Law).

The main functions of both general banks and PCBs in Indonesia are to collect funds (savings) and distribute the funds (intermediary function, credits) (Article 5 (1) of the 1998 Banking Law). Theoretically, financial institutions like banks play a vital role in enhancing innovation and economic growth by funding economic productive and investment activities (Bagehot, 1873; Schumpeter, 1912, in King & Levine, 1993). Empirically, as indicated by Kind and Levine (1993), banks' financial intermediation could enhance the sustainability of economic growth, capital accumulation, and productivity. However, banks that are not managed in accordance with good corporate governance principles could lead to a financial crisis as what happened in Asia, including Indonesia in 1997 (Dickinson & Mullineux, 2001; Nam & Nam, 2004; Greenspan, 1999; Mitton, 2002; Johnson et al., 2000).

Meanwhile, PCBs are established to serve small-scale businesses and people in rural areas to increase their accessibility to banking services and to boost economic growth and prosperity (Articles 1(3), 1(4), and 5(1) of the 1998 Banking Law, the consideration part of the 2016 Bank Indonesia PCBs' Regulation, the 2008 Sharia Banking Law; the consideration part of the 2014 IFSA PCBs' Regulation). Due to the strategic roles of banks in the economic field and the fact that banks could cause financial turmoil if they are corruptively managed, Indonesian banks and certainly banks across the globe should be guided by good corporate governance principles.

In Indonesia, with regard to general banks, previous research on corporate governance in the Indonesian banking conducted by Tabalujan (2001, 2002), Patrick (2001), Kameyana et al. (2006), and the World Bank and IMF (2004) indicted that there are relatively good policies and rules on corporate governance standards. They found that regulatory frameworks on corporate governance standards in general banks have been considerably well developed. The problem, however, is the implementation of the principles themselves. Research into several companies conducted by Patrick (2001), the Ministry of Finance of the Republic of Indonesia (*Departemen Keuangan Republik Indonesia*) (2006), and Kamal (2006) show similar findings in terms of the soundness of corporate governance. Claessens and Fan (2002) Tabalujan (2001, 2002), Kameyana et al. (2005), the World Bank and IMF (2004), Gillespie (2012), and Rosser (2003) suggest that further research in general banks and corporations should focus on corporate governance practices, policy implementations, and corporate governance arrangements.

Meanwhile, the studies on PCBs conducted by Duetsche Gesellschaft Technische Zusammenarbeit (2003), Bank Indonesia and Duetsche Gesellschaft Technische Zusammenarbeit (2000), the World Bank and IMF (2006), and Meagher et al. (2006) did not focus on corporate governance. Rather, they centered on PCBs' financial and organizational regulatory frameworks and their supervision by Bank Indonesia and other related financial institutions. Later, Rissy (2018, 2019) examined the soundness of corporate governance standards in PCBs.

All the above research in both general banks and PCBs assumed that the corporate governance concept and goals have been defined and determined clearly. Unfortunately, this is not the case. In fact, none of the above studies put much attention on particular issues like the concept of corporate governance and the goals of the corporate governance mechanism in the Indonesian banking sector. For this reason, this research tries to fill these gaps by thoroughly examining a proper concept of corporate governance and the goals of corporate governance that might be applied in the Indonesian banking sector.

3. Methodology and Research Questions

This research has two main research questions. First, what should be the proper concept of corporate governance for the Indonesian banking sector? Second, what should be the main appropriate goals of corporate governance implementation in the Indonesian banking sector?

This research applied a doctrinal legal research, which is a research approach that offers a systematic explanation of a particular legal category, provides a rules-relationship analysis, explains difficult areas of the rules, and possibly predicts future developments (Pearce, Campbell, & Harding, 1987; Hutchinson & Duncan, 2012).

In this research, legal primary documents such as the 2016 IFSA General Banks' Corporate Governance Implementation Regulation and the 2015 IFSA PCBs' Corporate Governance Implementation Regulations were the main sources of the research. From these two regulations, the existing definition of corporate governance and the goals of the corporate governance mechanism in the Indonesian banking sector were identified and analyzed.

Other secondary sources such as international codes and/or guidelines of corporate governance such as the 2016 UK Code, the 2016 Dutch Code, the 2017 German Code, the 2015 OECD/G20 Corporate Governance Principles, the 2015 Basel Committee Corporate Governance Principles, and relevant journals were used to analyze and construct the proper definition of corporate governance and the appropriate goals of the implementation of corporate governance in the Indonesian banking sector.

Based on Hutchinson and Duncan's (2012) perspective, these various documents were analyzed descriptively to determine what should be the essence of the above two ISFA regulations. This research strived to construct a proper definition of corporate governance and the appropriate goals of implementing corporate governance in the Indonesian banking sector.

4. Discussion

4.1 The development of corporate governance in the Indonesian banking sector: From a crisis to a stable condition.

The financial crisis in Asia, including Indonesia in 1997, revealed the fact that in addition to massive liberalization in the banking sector, poor corporate governance had contributed to the crisis (Kameyama et al., 2006). Mishkin pointed out that the financial crisis in Asia was caused by the extreme liberalization of the financial and capital markets. Another cause of the Asian crisis, as depicted by Dickinson and Mullineux (2001), Nam and Nam (2004), Greenspan (1999), Mitton (2002), and Johnson et al. (2000) was unsound corporate governance. The case might be that these two issues, massive liberalization and poor corporate governance, are related.

Meanwhile, Simon Johnson et al. (2000) insisted that legal institution weaknesses for corporate governance had significantly contributed to the Asian monetary crisis. Other disadvantages, as pointed out by Clarke and Rama (2009) are the small number of families who control national corporate assets.

In Indonesia, good corporate governance in the banking sector was neglected in a policy known as *Deregulasi Paket Oktober* 1988 or *Pakto* 1988 (Fitzpatrick, 1998; Kameyama et al., 2006). This policy was not followed up by a sound rule on banking supervision and monitoring (Pangestu, 2003). As a result, the banking governance principles were inadequate (William, 2003). Furthermore, Iu and Batten (2001) and Tabalujan (2001, 2002) stated that the main cause of the crisis in Indonesia was the failure to apply good corporate governance (GCG) principles. McGee (2008) also discovered that corporate structure weaknesses were a problem in the banking and company systems.

Other systemic problems are corruption and weaknesses of state-managed capitalism (Radelet & Sachs, in Krugmen (Ed.), 2000; Claessens & Fan, 2002). Sadguna (2005) documented poor quality management, an imbalanced ownership structure, as well as a lack of effective control measures and consistency in law enforcement processes as the sources of the turmoil. Furthermore, Nam and Nam found (2004) that concentrated company ownership, an ineffective control function, a lack of transparency related to mergers and acquisitions of companies, a high dependency on external funds, and a lack of control by creditors are the sources of the crisis.

In response to the 1997 Indonesia financial crisis and in order to overcome the above chronic problems, one critical breakthrough step taken by Indonesian regulators that must be recognized is the amendment of the 1998 Banking Law in 1998 (*Undang-Undang Perbankan*), which stimulated the Indonesian Central Bank (Bank Indonesia) to establish new regimes on corporate governance for general banks. Thus, the corporate governance standards in the general banking sector became well-regulated. Bank Indonesia then strongly urged all general banks to strictly implement the standards through the promulgation of the 2006 Bank Indonesia General Banks Good Corporate Governance Implementation Regulation and the 2007 Bank Indonesia General Banks Good Corporate Governance Implementation Regulation Circular Letter.

Another significant step was the establishment of the National Policy Committee on Corporate Governance in 1999, which was aimed at establishing a code of good corporate governance (GCG). In the same year, the committee issued a code of GCG guidelines (the 1999 Coordinator Minister of Economic, Financial, and Industrial Code of Good Corporate Governance Decree; the 2004 Coordinator Minister of Economic and Industrial Decree National Policy Committee on Corporate Establishment Decree).

This momentum significantly contributed to the later development and improvement of corporate governance in Indonesia, specifically in general banks and broader companies. Eventually, when banking regulations and supervision functions were transferred from Bank Indonesia to IFSA on 31 December 2013, IFSA then issued a regulation concerning the implementation of corporate governance in general banks in 2016 that applies up until now. It is to be acknowledged that regardless of the Century Bank scandals (AntaraNews, 2013), general banks in Indonesia are now more stable and have better corporate governance standards.

Meanwhile, the formation of sound corporate governance standards in PCBs has taken a long time. In its development, from 1998 to 2014, Bank Indonesia and IFSA promulgated a number of regulations that directly or indirectly govern corporate governance standards such as underlined in the 2006 Bank Indonesia PCBs' Regulation and in the 2014 IFSA PCBs' Regulation. Nevertheless, during this time, the corporate governance standards in PCBs were simple and lacked the committees (risk management, audit, remuneration, and nomination), units, and functions (internal audit, risk management, and compliance) needed, including a lack of independent commissioners in PCBs' board of commissioners (BOCs). As a result, some PCBs have been poorly managed and have suffered from internal fraud, fake credit scandals, and the embezzlement of depositors' and lenders' money (Rissy, 2018; Rissy, 2019).

Due to these serious corporate governance issues, Bank Indonesia and IFSA, from 2006 to April 2014, have revoked 59 PCBs' licenses (out of 1,634) (Bank Indonesia Statistic, 2013). Budi Armanto, Deputy Commissioner Banking Supervisor of IFSA, stated that "a lack of good corporate governance and risk management implementation lead to fraud" (Infobank, 2016). Nelson Tampubulon, the Head Executive of Banking Supervision for IFSA, said that 80 percent of PCBs' closures were caused by fraud (OkeZone, 2016) committed by PCBs' management, including members of BOCs and board of directors (BODs).

According to IFSA (2015), some of the managers and controlling shareholders committed fraud by misusing and embezzling depositors' and customers' money or using the funds for their personal interests. Fraud was mostly caused by poor internal audits and management's lack of integrity. Salusra Satria, Claim and Bank Resolution Executive Director of the Indonesian Deposit Insurance Cooperation, also explained that the majority of PCB scandals that led to the closure of PCBs, were mainly triggered by internal fraud, fake credit scandals, and the embezzlement of credit installment payments or credit payments by the owners and/or their affiliated management (Kontan Online, 2015).

To overcome all the aforementioned problems in PCBs, IFSA then finally issued a regulation on the implementation of corporate governance in PCBS in 2015 and risk management in PCBs in 2015 that apply up until now. Regardless of the fact that some scandals still occur in PCBs that have led to the liquidation of 40 PCBs from 2015 to 2020 (Lembaga Penjaminan Simpanan, 2020), PCBs are currently more stable and have better corporate governance standards.

It is to be recognized that currently the Indonesian banking sector has already had sounder corporate governance standards in dealing with its governance structures like BOCs and BODs' duties and compositions, and committees, units, and functions under BOCs and BODs such as risk management, internal audits, and compliance. The Indonesian banking sector also already has standards to deal with financial and non-financial disclosures, internal audits and control systems, risk management, compliance, conflict of interest settlements, business plans, and maximum legal lending limits (3L Rule) (the 2016 IFSA General Banks Corporate Governance Implementation Regulation and the 2015 IFSA PCBs' Corporate Governance Implementation Regulation).

However, there have been some loopholes in the two IFSA regulations on corporate governance in general banks and PCBs, especially the unclear definition of corporate governance and the vague goals of the corporate governance mechanism in the Indonesian banking sector. That is why this article, to reiterate, tries to focus on revisiting the definition of corporate governance and the goals of corporate governance in the 2016 IFSA General Banks Corporate Governance Implementation Regulation and the 2015 IFSA PCBs' Corporate Governance Implementation Regulation.

4.2 Revisiting the concept of corporate governance in the Indonesian banking sector

IFSA defines corporate governance as the implementation of transparency, accountability, responsibility, independence, and fairness ('TARIF') principles by PCBs and general banks (Article 1(7) of the 2015 IFSA PCBs' Corporate Governance Implementation Regulation; Article 1(7) of the 2016 IFSA General Banks Corporate Governance Implementation Regulation). There is no further detailed explanation of this concept in the two regulations. It is clear that the above definition of corporate governance for PCBs and general banks deals with the more general principles of corporate governance, not the concept of corporate governance itself. Yet, corporate governance as a concept is not clearly and systematically defined in the existing IFSA corporate governance regulations. As such, this definition has been a main flaw in the 2015 and 2016 IFSA Regulations on Corporate Governance for the Indonesian banking sector.

It is argued that the TARIF principles should be differentiated from the definition of corporate governance itself. The TARIF principles, as they are included in IFSA's definition of corporate governance, are the general values that guide the implementation of good corporate governance. The TARIF principles, accordingly, are the basic general principles of good corporate governance, as written in the 2006 Indonesian Code of Corporate Governance, that need to be implemented to ensure the sustainability of a company.

To have a clear understanding of the difference between the TARIF principles and the essential concept of corporate governance itself, it is important to explain the TARIF principles. The 2006 Indonesian Code of Good Corporate Governance states that the transparency principle deals with a company's obligation to provide materials and any relevant information to the stakeholders to preserve objectivity in doing business. The accountability principle focuses on the proper management of a company where the interest of the company is aligned with those of shareholders and stakeholders. The responsibility principle confirms the importance of a company in complying with all laws/regulations and meeting its responsibility to the environmental surroundings to ensure the sustainability of the company. The independency principle affirms that a company shall be managed independently where the company's organs exercise a balance of power and there is no one organ that dominates the others. Finally, the fairness principle asserts that a company should consider the interests of the shareholders and other stakeholders fairly. From the aforementioned explanation, it is again obvious that the TARIF principles are not the concept of corporate governance itself, but rather they are simply general guidance for implementing good corporate governance.

With respect to the definitions of corporate governance, as have been discussed by many scholars (Carvey & Swan, 1994; Oman, 2001; Zingales, 1998; Tricker, 1984; Tricker, 2012; Aguilera & Jackson, 2010; Macey 2010; Macey & O'hara, 2010), there is no single accepted definition of corporate governance. However, one definition of corporate governance that is widely accepted is the definition provided by the Cadbury Committee in the United Kingdom, where corporate governance deals with the system by which a company is directed and supervised. The Cadbury Committee proposed this definition in 1992, and it was confirmed in the 2016 UK Code. The Cadbury Committee stated that:

> Corporate governance is the system by which companies are directed and controlled. Boards of directors are responsible for the governance of their companies. The shareholders' role in governance is to appoint the directors and the auditors and to satisfy themselves that an appropriate governance structure is in place. The responsibilities of the board include setting the company's strategic aims, providing the leadership to put them into effect, supervising the management of the business and reporting to shareholders on their stewardship. The board's actions are subject to laws, regulations, and the shareholders in general meetings (The Cadbury Committee, 1992; the 2016 UK Code of Corporate Governance).

Therefore, corporate governance deals with 'what the board of a company does and how it sets the values of the company. It is to be distinguished from the day-to-day operational management of the company by full-time executives (the 2016 UK Code of Corporate Governance). Similar to that, the Dutch Corporate Governance Code of 2016 also defines corporate governance in a similar manner. It states that corporate governance deals with the 'management and control, ... responsibility and influence, ... [and] supervision and accountability' of a company.

Meanwhile, the 2015 G20/OECD Corporate Governance Principles conceptualize corporate governance as 'a set of relationships between a company's management, its board, its shareholders, and other stakeholders'. Corporate governance also deals with the structure through which the objectives of the company are set, and the means of achieving those aims and supervising performance. In terms of the banking industry, the 2015 Basel Committee Principles of Corporate Governance defines corporate governance as a system where authorities and responsibilities are allocated, and as a system for the way the business and affairs of a bank are governed by its board and senior management.

Aside from the above definitions, many scholars have also tried to define corporate governance. Some relate corporate governance to the shareholder model of corporate governance. Shleifer and Vishny (1997), for example, define corporate governance as 'the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment'. Similar concepts are used by Denis and McConnell (2003), where corporate governance is perceived as 'the set of mechanisms – both institutional and market-based –that induce the self-interested controllers of a company (those that make decisions regarding how the company will be operated) to make decisions that maximize the value of the company to its owners (the suppliers of capital)'. Levitt (2002) describes corporate governance as the relationship between the investor, the management team, and the board of directors of a company.

In addition, Turnbull (1997) explains that 'corporate governance describes all the influences affecting the institutional processes including those for appointing the controllers and/or regulators, involved in organizing the production and sale of goods and services'. Hence, the definitions quoted above focus on two main parties: owners (principals), or shareholders or finance suppliers and agents (managers).

Based upon the above concepts of corporate governance as highlighted in the codes of corporate governance as well as from scholars, the definition of corporate governance in the context of the Indonesian banking sector could focus on how boards (BOCs and BODs) and the committees (such as the audit committee and the risk management committee), directors and the units (such as the internal audit unit), the risk management unit and the compliance unit, and other key executives can effectively relate to and align their stakeholders such as shareholders, lenders, depositors, local communities, local governments, IFSA, and the Indonesian Deposit Insurance Corporation (Rissy, 2018).

The definition of corporate governance in the Indonesian banking sector could also deal with the effectiveness of the above structures in executing their duties, the endorsement of the stakeholder approach, especially in how Indonesian banking both general banks and PCBs BOCs and BODs take into account their stakeholders' interests, the effectiveness of the Indonesian banking sector's BOCs' and BODs' structures and control, and how to direct the Indonesian banking sector to achieve its goals.

Such a definition should be included at the beginning of the provisions of the 2015 and 2016 IFSA Regulations concerning corporate governance for PCBs and general banks. By doing so, there will be a clear understanding of corporate governance in the Indonesian banking sector context. Hence, corporate governance in the Indonesian banking sector should be defined as a mechanism where boards of banks direct and control the banks effectively by considering and aligning all banks' legitimate stakeholders' interests to achieve banking long-term success.

4.3. Revisiting the goals of corporate governance in the Indonesian banking sector

It is interesting that after examining all of the content of the 2015 and 2016 IFSA Corporate Governance Implementation Regulations for general banks and PCBs, there is no one explicit article or explanation on the goal of corporate governance for both banks. It is unusual where the regulations dealing with corporate governance are absent on the goals of the corporate governance mechanism as they are commonly highlighted in international codes or guidelines of corporate governance such in the 2016 UK Code, the 2016 Code, the 2017 German Code, the 2015 OECD/G20 Corporate Governance Principles and the Basel Committee 2015 Corporate Governance Principles.

The only information as to the goals of corporate governance in PCBs is found in the Consideration Letter B of the IFSA 2015 and 2016 Corporate Governance Implementation Regulations for general banks and PCBs. It establishes that corporate governance needs to be implemented in PCBs to increase PCBs' performance, protect the stakeholders, and improve compliance with laws/regulations and ethical values in banking. It seems that these goals are too general as applied for broader companies. These goals are not enough if they are connected with the corporate governance mechanism.

Hence, it is argued that the formulation of the goals of corporate governance should be more specific and deal more with the goals of corporate governance themselves for both general banks and PCBs. In addition, as the goals of implementing corporate governance are pivotal for general banks and PCBs, it is improper to just place them in the consideration part of a regulation. They should be regulated systematically in the provisions (the body) of the regulation not in the consideration part or in the explanation part.

In order to reformulate the goals of implementing corporate governance in general banks and PCBs (the Indonesian banking sector), it is critical to review this theme from codes or guidelines of corporate governance perspectives. The formulation of the goals of corporate governance should be drafted to be concise and clear. In the UK and the Netherlands, for example, the statement with regard to the main goal of corporate governance is clear: to deliver the long-term success of the corporation or to achieve long-term value creation for the company. In the UK, the 2016 UK Corporate Governance Code establishes that 'the purpose of corporate governance is to facilitate effective, entrepreneurial, and prudent management that can deliver the long-term success of the company'. It is also stated that 'every company should be headed by an effective board which is collectively responsible for the long-term success of the company'.

In the Netherlands, the 2016 Dutch Corporate Governance Code definitively states that long-term value creation is the major goal of corporate governance mechanisms. The supervisory board and the management board are put in place to ensure that this goal is achieved. It states that:

> The management board is responsible for the continuity of the company and its affiliated enterprise. The management board focuses on long-term value creation for the company and its affiliated enterprise, ... The supervisory board monitors the management board in this (Principle 1.1).

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

At this point, arguably, corporate governance standards in the Indonesian banking sector should be clear in formulating their main objectives. In order to do so, the standards should take into account the importance of general banks and PCBs' business sustainability, their objectives to serve big enterprises and Indonesian people and the business community for general banks, and to serve small and medium enterprises and people in rural areas for

PCBs, and the fact that PCBs and general banks need to have a clear direction in managing their governance.

Yet, the main objectives of corporate governance standards for the Indonesian banking sector should be to ensure the sustainability of banks or the long-term value creation of banks, to direct banks in implementing good corporate governance, to contribute to the enhancement of the banking industry's stability, to encourage banks to provide accountable services to big business communities and their stakeholders generally, and to offer credible banking facilities to small and medium enterprises and people in rural areas. These objectives should be integrated into the beginning provisions of the IFSA regulations concerning corporate governance standards in the Indonesian banking sector. This will offer a clear path for the Indonesian banking sector in complying with corporate governance standards.

5. Conclusion

This article has demonstrated that the promulgation of IFSA regulations on corporate governance for PCBs in 2015 and for general banks in 2016 was a strategic step in formulating better corporate governance standards in PCBs. However, there are two main flaws identified in the two regulations with regard to the unfinished definition of corporate governance and the lack of clear goals of corporate governance mechanisms. IFSA simply defines corporate governance as the implementation of the TARIF principles which is not the concept of corporate governance itself, but rather, the general main values of good corporate governance. Meanwhile, in light of the goals of the corporate governance mechanism in the Indonesia banking sector, IFSA just places them in the consideration part of the regulations and the goals are considered to be quite general as applied in broader companies.

To mitigate these issues, it is suggested that corporate governance in PCBs and general banks (the Indonesian baking sector) should be defined as a mechanism where boards of banks direct and control banks effectively by considering and aligning all banks' legitimate stakeholders' interests to achieve banks' long-term success or long-term value creation.

In the Indonesian banking sector context, the goals of the corporate governance mechanism could be to ensure the sustainability of banks' businesses or the long-term success of banks, to direct banks in implementing good corporate governance, to contribute to the enhancement of the stability of the banking industry, to help banks to comply with regulations and/or business ethics, and to encourage banks to provide accountable services to all their legitimate stakeholders as well as to properly align with their stakeholders' interests.

It is also recommended that the goals of implementing corporate governance should also be formulated systematically and clearly in the provisions (the body of the regulations), not in the consideration part of the regulations or in the explanatory part of the regulations.

Limitation of the Research

This study applied a doctrinal legal research methodology which predominantly relied on the understanding and interpretation of the author of the legal sources examined. Therefore, the results and discussions of this issue could be different for other authors. However, when the understanding and interpretation of this theme are based on the same succinct doctrinal legal research and theoretical background, the results and discussions might be similar. In the future, research should focus on the implementation of good corporate governance in the Indonesian banking sector.

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