

Corporate Governance Implementation in Indonesian Saving Banks (BPR) and Small and Medium Businesses (UKM)

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Abstract

In this study, the author will examine how Indonesia's Corporate Government Savings Banks are implemented in accordance with legal requirements and research on savings banks in other nations. Simpana Bank, a type of SME product, is a commercial organization that needs to be professionally managed in a number of European nations. In contrast, in Asian countries, things vary based on the policies of the respective governments; some are regulated, while others are voluntary. According to the findings of the study, Savings Banks must adopt Corporate Government in accordance with Law No. 3 of 2004 concerning Bank Indonesia.

Keywords: Bank Indonesia, Corporate Government, Policy, Savings Bank.

INTRODUCTION

The growing number of businesses with strong competitive advantages in Indonesia is evidence of the country's business development. As a result of the emergence of numerous competitors and business indicators, business dynamics change. Due to these shifting business conditions, many companies require additional funding in order to grow and thrive. To ensure the smooth operation of the business, funding sources can be derived from both non-owners (liabilities) and owners (equity) (Maria, 2020).

Large national corporations in Indonesia have suffered greatly as a result of the recent, swift changes in the economic environment. These businesses proceeded to deteriorate after being compelled to defend themselves with unpopulist policies. Small and medium-sized businesses (SMEs), on the other hand, have proven to be able to endure and prosper in Indonesia's challenging environment. The Indonesian economy depends heavily on SMEs. In the life of small communities, small and medium-sized businesses (SMEs) are crucial because they lower poverty, level the playing field for small business owners, and provide foreign exchange for the nation (Prasetyo and Huda, 2019).

Small and medium-sized businesses (SMEs) in Indonesia are vital to the country's economy. Improving the status of Small and Medium Businesses (SMEs) by expanding their access to financial, production, marketing, and managerial services is one of the goals of the government's Long Term Development Plan (2005–2025). The survival of small and medium-sized businesses (SMEs) is a significant issue brought on by economic circumstances, according to recent research. The significant issue of inadequate corporate governance processes is one of the economic issues. Governance issues are common among managers and administrators of Small and Medium Enterprises (UKM) (Jaswadi, 2016).

Additionally, they frequently work with savings banks to help the financing of business operations for small and medium-sized enterprises (UKM). Generally speaking, the presence of savings banks in Indonesia can support the expansion of individuals' enterprises. This is particularly true for SMEs that are situated near underprivileged areas (Chou & Buchdadi, 2016). As banking and financial organizations, savings banks have a significant impact on the local economy.

Among other things, the capacity to produce consistent earnings demonstrates the company's superiority. Businesses that can turn a profit on a regular basis can easily continue to exist. A company's ability to survive is crucial, particularly in the face of today's more intense competition. Aside from that, the rise of non-bank financial institutions, which have a similar objective of gathering and directing public funds, has presented additional difficulties for banking financial organizations. Savings bank types in Indonesia differ from regular bank types in terms of their operating activity. This is because, in contrast to commercial banks, its reach is more constrained. Rural banks face a unique difficulty in this regard, as they must contend with comparable banks in addition to commercial banks. According to Budiawati (2020), this also entails competing for finance for small and medium-sized businesses (UKM).

Therefore, it can be said that savings banks and small and medium-sized businesses (UKM) are located in close proximity to Indonesian small settlements, which naturally comprise a sizable portion of the country's population. Given that this business organization is expanding at the community level and has a large membership, the big question is whether or not the business unit management is professional.

Corporate governance is a crucial topic that gained international attention following the October 19, 1987, New York Stock Exchange crash. At the time, putting corporate governance into practice was crucial since effective management kept businesses from going bankrupt (Pramono, 2017).

The first-reviewed CG instance demonstrated a conflict of interest between the agent and the owner, which was common in large businesses where the owner believed he had expanded the business before the agent assumed administration of the business (Berley and Means, 1932).

The legal circumstances at the moment, which do not provide preference to public owners who are minority shareholders over owners who are few in number but possess a big number of shares, have an impact on the next scenario, which involves both majority and minority shareholders (La Porta et al., 1998). As previously mentioned, data from the Ministry of Cooperatives in 2012 showed that small and medium-sized businesses (UKM) accounted for 57.94% of Indonesia's GDP (Kemenkop UKM, 2012). Given this, there is debate on whether small and medium-sized businesses (SMEs) should adopt the CG that has been adopted in major corporations (Clarke, 2007). Does corporate governance also pose a problem for small banking firms? A financial crisis in the 2000s nearly brought down Spain's pre-existing banking system. To get around this, the owner of a commercial bank with a sizable capital base decides to increase the organization's capital. In contrast to tiny banks that are categorized as savings banks in Indonesia, the Spanish government had to deal with this crisis issue at the time, when savings banks accounted for 50% of the country's banking system. Because of this, an analysis of professional management in this kind of bank is required. The Savings Bank shouldn't be required to implement Corporate Government even if it isn't listed on the Capital Market (Crespi et al., 2004)

RESEARCH METHODS

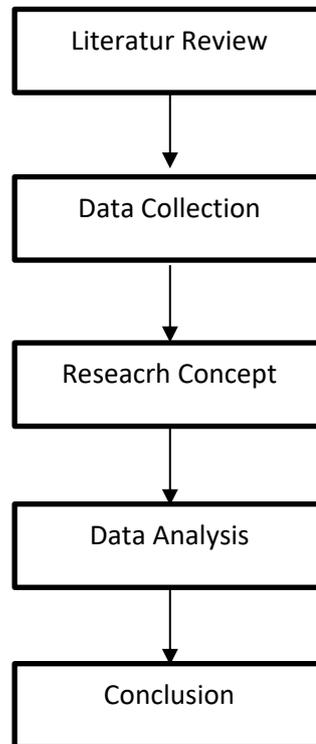
Research Model

A literature study, sometimes referred to as a literature review, is a thorough synopsis of earlier research on a certain subject and is used in this study. A literature review serves the dual purposes of demonstrating to readers what is known about the subject and providing a foundation for earlier research or ideas for future studies (Denney & Tewksbury, 2013). Numerous resources, including books, journals, libraries, documentation, and the internet, are available for literature study. The steps involved in gathering library data, reading and taking notes, and organizing written materials make up the literature study approach.

Data collection

The information used in this study is derived from research findings that have been conducted and published in online journals both domestically and abroad. Using the search engines ProQuest, JSTOR, Researchgate, and Scholar, researchers looked for online research articles using the following keywords: SME, Saving Bank, Corporate Governance.

View Literature Flow



RESULT AND DISCUSSION

Implementation of Corporate Government in Savings Banks

Banking institutions in Indonesia, particularly Rural Banks (Bank Perkreditan Rakyat/BPR), operate under the framework of Law Number 3 of 2004 of the Republic of Indonesia concerning Bank Indonesia. In practice, the implementation of corporate governance within BPR is further elaborated through regulations and technical guidelines issued by the Financial Services Authority (Otoritas Jasa Keuangan/OJK) as well as other relevant supervisory agencies. These regulations are intended to ensure that governance practices are not only standardized across financial institutions but also adapted to the unique characteristics of BPR as community-based financial intermediaries.

Despite the regulatory framework, several core principles of business and organizational management are consistently emphasized in the governance of financial institutions, including BPR. These principles can be outlined as follows:

1. Supervisory Board and Directors

BPR is expected to establish a governance structure that includes an independent supervisory board (board of commissioners) alongside the board of directors, in line with the principles of good corporate governance. The supervisory board holds the primary responsibility of providing oversight and advice, ensuring that the bank's policies and management practices are consistent with regulatory requirements, ethical standards, and the long-term interests of

stakeholders. Their independence is crucial in fostering objectivity, particularly in monitoring the performance of the directors and safeguarding the institution against managerial misconduct. In contrast, the board of directors is entrusted with the day-to-day management and strategic decision-making processes of the bank. This encompasses responsibilities such as formulating business strategies, managing operational activities, allocating resources, and ensuring that the bank remains financially sound and competitive. By focusing on execution and operational efficiency, the board of directors acts as the driving force behind the bank's growth and sustainability. The separation of functions between the supervisory board and the board of directors serves as a vital mechanism to maintain checks and balances within the organization. Such separation helps minimize the risk of power concentration, prevents conflicts of interest, and enhances accountability. It ensures that decision-making processes are conducted with transparency and fairness, thereby promoting the stability and integrity of bank operations. Ultimately, this governance framework strengthens public trust in BPR and contributes to the overall resilience of the financial system.

2. Openness and Transparency

Transparency in operations and decision-making processes is recognized as one of the fundamental pillars of corporate governance, as it directly affects stakeholder confidence and institutional credibility. For BPR, transparency is not merely a regulatory requirement but also a strategic necessity to strengthen trust with the communities it serves. By openly communicating its financial condition, business strategies, and operational policies, BPR demonstrates accountability and a commitment to sound banking practices. In practical terms, BPR is required to provide adequate disclosures to a wide range of stakeholders, including shareholders, clients, regulators, and the general public. These disclosures typically take the form of financial statements, annual reports, sustainability reports, and policy documents that reflect the bank's performance, risk profile, and long-term vision. Transparency ensures that all relevant parties have access to accurate and timely information, thereby reducing the risk of misinformation and asymmetry between management and stakeholders. Furthermore, transparency acts as a safeguard against unethical behavior and mismanagement, as open disclosure enables external parties to monitor and evaluate the bank's performance. For regulators, it facilitates oversight and compliance monitoring; for shareholders and clients, it provides a basis for informed decision-making; and for the public, it reinforces the image of BPR as a trustworthy and reliable financial institution. Ultimately, the implementation of transparency strengthens good governance practices, fosters sustainable growth, and enhances the long-term resilience of BPR in Indonesia's banking sector.

3. Risk Management

A sound risk management framework is indispensable for BPR, particularly because of its dual role as a mobilizer of public funds and a provider of credit to local communities. As financial intermediaries that operate on a relatively smaller scale compared to commercial banks, BPR is often more vulnerable to fluctuations in credit quality, liquidity constraints, and operational inefficiencies. For this reason, the establishment of a comprehensive and proactive risk management system is not only a regulatory requirement but also a critical factor for ensuring institutional resilience and sustainability.

Effective risk management within BPR encompasses several stages: identification, measurement, monitoring, and control of potential risks. The primary risks that need to be addressed include:

- Credit Risk, which arises from the possibility of borrower default and directly affects asset quality and profitability.
- Liquidity Risk, which relates to the bank's ability to meet its short-term obligations, particularly withdrawals by depositors.
- Operational Risk, which stems from internal system failures, human error, or external

disruptions that can hinder service delivery.

By systematically managing these risks, BPR can maintain financial stability, protect depositors' funds, and safeguard the institution itself from systemic vulnerabilities. Moreover, a strong risk management culture helps foster prudent lending practices, enhances decision-making, and supports compliance with regulatory standards established by OJK and Bank Indonesia. Ultimately, effective risk management strengthens public trust in BPR and ensures its continued role as a reliable financial partner for local communities.

4. Function Separation

A clear separation between executive and supervisory functions is widely acknowledged as a cornerstone of good corporate governance, as it ensures that no single entity holds excessive power in organizational decision-making. Within BPR, this principle requires that the supervisory board (board of commissioners) and the board of directors operate independently while carrying out their respective mandates. The supervisory board is tasked with providing oversight, monitoring management activities, and ensuring compliance with regulations, whereas the board of directors focuses on executing strategies, managing daily operations, and achieving business objectives. To reinforce this separation, it is essential that each body has well-defined roles and responsibilities, thereby preventing overlap that could lead to inefficiency or conflict of interest. Furthermore, the establishment of adequate internal controls such as audit functions, reporting mechanisms, and compliance systems acts as a safeguard to minimize the risk of abuse of authority. These mechanisms also serve to enhance accountability, ensure transparency in decision-making, and uphold the integrity of institutional governance. Ultimately, the proper implementation of this functional separation not only strengthens the internal governance structure of BPR but also builds stakeholder confidence, reduces the likelihood of managerial misconduct, and supports the long-term sustainability of the institution within Indonesia's financial system.

5. Regulation Compliance

In addition to complying with the general provisions of banking laws and regulations, BPRs are also obligated to adhere to the specific policies and technical guidelines issued by Bank Indonesia (BI) and the Financial Services Authority (Otoritas Jasa Keuangan/OJK). These regulatory bodies play a central role in maintaining the soundness of the national financial system and in shaping the governance standards that apply to all financial institutions, including rural banks. Bank Indonesia primarily oversees aspects related to monetary policy, payment systems, and prudential regulations that safeguard financial stability. Meanwhile, OJK exercises supervisory authority over BPR operations, particularly in the areas of corporate governance, transparency, consumer protection, capital adequacy, and risk management practices. The dual oversight ensures that BPRs operate responsibly, remain financially resilient, and provide services in accordance with the principles of fairness and accountability. For BPRs, compliance with these policies is not merely a formal requirement, but also a strategic necessity. By strictly following BI and OJK regulations, BPRs can avoid legal and reputational risks, foster stakeholder confidence, and strengthen their position as credible community-based financial institutions. Moreover, such compliance contributes to the achievement of broader objectives in Indonesia's financial sector, namely ensuring stability, inclusivity, and sustainable growth.

6. Satisfaction of Social and Environmental Obligations

In addition to fulfilling financial and regulatory requirements, BPR is also expected to take into account its social and environmental responsibilities as part of broader good governance practices. Although these aspects may not be the primary focus of BPR operations which are largely centered on financial intermediation and community credit distribution they nonetheless play an important role in ensuring sustainable business practices. From a social perspective, BPR is encouraged to contribute to local community development through initiatives such as financial literacy programs, support for micro and small enterprises, and the provision of accessible

financial services for underserved populations. Such contributions not only enhance the welfare of the community but also strengthen BPR's reputation as a people-oriented financial institution. From an environmental perspective, BPR is expected to align its activities with responsible banking principles by, for example, considering environmental impacts in credit distribution, supporting eco-friendly business initiatives, and complying with government-led sustainability programs. While environmental obligations may not yet be a dominant priority, they are increasingly important in building long-term institutional credibility and aligning with global trends in sustainable finance. By incorporating both social and environmental considerations into their governance framework, BPRs can reinforce public trust, enhance stakeholder value, and contribute meaningfully to Indonesia's broader goals of inclusive and sustainable economic development.

CONCLUSION

Several inferences can be made about this research based on the findings of the study in the previous chapter, including:

1. Savings banks, particularly BPR, are legally required to adopt and implement corporate governance in accordance with Law No. 3 of 2004 concerning Bank Indonesia as well as subsequent regulations issued by the Financial Services Authority (OJK). This regulatory framework highlights the centrality of corporate governance as a mechanism to ensure that financial institutions operate with accountability, transparency, fairness, and responsibility, thereby protecting the interests of stakeholders and the public at large. Although BPR operates on a smaller scale than commercial banks, serving primarily as community-based financial intermediaries, the obligation to comply with governance standards remains equally binding. The principles of good governance are essential for BPR in safeguarding depositors' funds, ensuring prudent credit distribution, and maintaining operational discipline. Moreover, adherence to these standards plays a vital role in strengthening institutional credibility, mitigating risks, and promoting the long-term sustainability of BPR within Indonesia's financial system. In practice, the implementation of governance in BPR serves not only as a compliance measure with legal mandates but also as a strategic foundation for building public trust and enhancing competitiveness in the banking sector. Thus, despite its relatively limited operational scope, BPR is positioned as an integral part of the national financial architecture, with governance acting as the cornerstone of its stability and resilience.
2. Although BPR is categorized as a small-scale business unit within society, it nevertheless bears substantial obligations in terms of corporate governance and institutional management. Its relatively modest size and localized operations do not exempt it from the requirement to uphold principles of accountability, transparency, and responsibility. Instead, these obligations become particularly important, as BPR directly engages with grassroots communities and mobilizes local financial resources. The application of organizational management principles in BPR may differ from that in larger commercial banks, given its community-based orientation, limited asset base, and narrower operational scope. Nevertheless, this structural difference does not diminish its responsibility to adhere to regulatory standards, implement effective risk management systems, and ensure transparency in decision-making processes. By doing so, BPR can protect depositor funds, maintain financial discipline, and fulfill its mandate as a trusted financial intermediary at the local level. In fact, the smaller operational scale of BPR makes adherence to good governance principles even more critical. A single lapse in governance or risk management can have an immediate and significant impact on both the institution and the community it serves. Therefore, consistent application of governance standards not only safeguards stakeholder

trust but also strengthens the role of BPR in promoting financial inclusion, supporting small and micro enterprises, and contributing to sustainable local economic development.

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