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Corporate Governance of Indonesian Regional Development Banks: Analysis on PT Bank DKI

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Abstract: It is well established that Corporate Governance (CG) in banking industry presents unique and strenuous features due to the predominant effect the industry has towards a country's economy. In Indonesia, the banking sector is varied by regional development banks owned by each local government. Having the same business model and scale, the Regional Development Banks in Indonesia share distinct ownership structure and strategic role of these entities placed them in peculiar position where CG is concerned. These banks subservient to the local government's political and economic agenda. Using Bank DKI as a case in point, this study is aimed at analyzing discriminant CG structures and their impact towards the practice of Bank's governance. Bank DKI has won Annual Report Award for four years in a row. This implies bank's best practice as acknowledged by authorities in CG. Data are collected through in-depth interviews and triangulated for validation. Consistent with prevailing CG theory, agency problem persists in Bank DKI, resulted in dynamic interactions detrimental to Bank DKI's operations. The three determinant structures of Bank DKI's CG are the Board of Commissioner and Board of Directors; the committees and the shareholders. The third determinant is a reflection of the bank's owner. In order to fulfill mandate from bank's owner, Bank DKI often has to overlook CG practice, resulted in weak monitoring process, ineffective meetings and recruitment issues. Further discussions suggest that these lapses reflect the quality of local government's governance.

Key words: Corporate Governance, Regional Development Bank, Agency Problem

INTRODUCTION

In most countries worldwide, banking industry are highly regulated yet opaque industries that the government often imposed series of regulation specifically for this industry, including on its governance. The governance practice on banking industry adopts major principles of Corporate Governance (CG) practices while it also presents unique and strenuous features due to the predominant effect of the industry has towards a country's economy. Canada demonstrated a regional government-owned banks practice that was known as provincial banks (provinces with regional government Bank ownership are: new found land, Nova Scotia, Ontario, Manitoba and Alberta). In European Region such as france, regional development bank was known as rural bank and developed as banking institution operating in rural area and focused on agricultural business with private sharing, Kindleberger wrote the foundation and development of local bank in Europe in his book "A Financial History of Western Europe"). Banking governance practice in South Korea brought some evident of regional development banks with similarities as Indonesia, primarily as they are exists as general banks in city (city bank) or province level and firstly introduced in 1967 as an effort to push economic balance in regional level (There were 10 regional or local banks in South Korea in 1980, among others: Tae Gu, Pu San, Chung Cheong, Kwang Ju, Che Ju, Kyung Ki, Jeon Buk, Kang Won, Kyung Nam and Chung Buk. There were only 8 Regional Banks left in South Korea: in 2006 or post financial crisis, among others: Daego, Pusan, Kwangju, Cheju, Jeonbuk, Kangwon, Kyongnam and Chungbuk (Gilbert and Wilson, 1998). In terms of management style, share Ownership and function of the regional bank, indonesia's practice is closely compared to one that can be found in china where the country today has numbers of active regional development banks known as city/rural commercial banks that are still operating. These banks are owned by regional-owned enterprises whose 100% of their shares are owned by city/municipal governments (Chinese Regional Banks are: Bank of Beijing, Bohai Bank, China Merchants Bank, Bank of Dalian, Shengjing Bank, Bank of Jinzhou, Bank of Jilin, Harbin Bank, Industrial

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Bank (Fuzhou), Fujian Halxia Bank (Fuzhou), Guangdong Development Bank (Guangzhou), Bank of Ningbo, Ping An Bank (Shenzhen), Bank of Shanghai, Shanghai Pudong Development Bank, Shenzhen City Commercial bank, Shenzhen Development Bank and Zhejiang Tailong Commercial Bank).

Corporate Governance (CG) initiative in Indonesia is reinforced after economic crisis in 1997 triggered by institutional vulnerability in economic and corporation sectors. CG is later aligned to strengthen banking and economic institution as well as other corporate entities in the market ever since (Sato, 2004) pursuing economic development while also maintaining social and environmental sustainability. Most prominent issue of CG is focused on corporate management and CG studies major problems that are related to the separation of ownership and management (Sato, 2004; Solomon and Solomon, 2004; Banks, 2004), and other related factors including law system, cultural and religious system, political condition and economic trend (Solomon and Solomon, 2004). These exist as internal and external factors that interfered CG where CG has direct implication towards a company's target achievement and value creation process. Among other characteristics of CG, this paper highlights independency of Boards and separation of Chairman and Chief Executive Officer that influence quality of check and balance mechanism as well as balance of managerial authority balance related to information sharing process in the company (Sato, 2004; Hidalgo *et al*., 2010; Dianita, 2015; Dong and Keshavjee, 2016).

Banking sector in Indonesia is a developing sector with rapid development and consists of different banking entities with different ownerships. By the end of 2007, Indonesian banking sector noted down 130 banks including 5 state-owned enterprise banks, 35 private-foreign banks, 36 foreign non-foreign exchange banks, 26 regional development banks, 17 joint venture banks and 11 foreign banks with total consolidated banking balance sheet amounting to Rp1.986 trillion (USD213 million) (Hadad *et al*., 2012). In 2014 total asset managed by regional development bank was Rp343,1 trillion and the consolidated total assets contributed major share to regional-owned enterprise (Umanto, 2015). Indonesian banking structure indicates that regional development banks have an imperative role on Indonesia's economic development. Regional development banks serve as banking institution in regional level with direct engagement with public economic activity regionally. Across Indonesia, the banks have similar business model, scale and type of ownership. Moreover, the regional development banks applied the same regulatory framework known as PBI issued by Financial service authority (OJK) as the only guideline for banking sector at national level. Some studies noted that regional financial/banking institution reserves distinctive functions, such as eradicating poverty at regional level and promoting regional financial system by empowering Small Medium Enterprises (SMEs) (Guiso *et al*., 2009) that also support or accelerate regional development process (Kendall, 2012).

CG structure applied in the regional banking sector is considered to have special needs compared to other CG Structures in other sector by considering the nature of industry of the regional development banks where the banks are highly regulated, highly diversified and more opaque compared to other corporate entities in non- financial sectors although the corporate controlling mechanism applied in non-financial sector may also affect operational aspect of the banks. Bank DKI becomes a subject of entire banking regulations in Indonesia as it is classified as Regional Development Bank. According Bank DKI's good corporate governance assessment report, one of the indicators of Bank DKI's compliance to Indonesian banking regulations is indicated by GCG Assessment score achievement and awards given by several prominent institutions to Bank DKI (Bank DKI's CG assessment report applies corporate governance perception index with average score of 1, 5 achieved in 2011, 2012 and 2013 and "Good" predicate. The Bank also won first winner in Annual Report Awards for 2010-2014 period in Listed Financial Regional-Owned Enterprise Category. The award is organized by National Committee of Governance Policy (KNKG), Indonesia Stock Exchange (IDX), Bank Indonesia (BI), Financial Service Authority (OJK), General Directorate of Taxation, Ministry of Finance Republic of Indonesia, Ministry of State-Owned Enterprise and Indonesia Accounting Association (IAI)). The report also noted result of CG implementation in Bank DKI since 2011 to 2015, the problems were mostly related to CG structure in Bank DKI and occurred annually with varied source of problems. By using Bank DKI as a case point, this paper will discuss discriminant factors of CG structure and their impact towards the Bank's governance. Further analysis will oversee quality of CG in regional bank with implication to the governance of local government as the shareholders.

Literature review: Generally, firm theory classifies firm into public and private enterprise. Ownership of public enterprise presents at two level which appears as State-Owned Enterprise (SOE or "BUMN") at state level and Regional-Owned Enterprise ("ROE" or BUMD) at provincial/local level. Several countries, i.e., Italy, term of

SOE represents the corporate entity owned by government that includes ownership of shares, interest, roles and involvement in the company. As a public enterprise, both SOE and ROE have have same characteristics and also differences compared to each other (Konsonansi (similarities) and comparison of state-owned enterprise and regional-owned enterprise adapts the concept proposed by Tanri Abeng, Indonesian former SOE Minister (1998-1999 period) as cited by Dari Meja Tanri Abeng: Managing atau Chaos, Jakarta: Sinar Harapan). Similarity between SOE and ROE is playing role as source of development fund. In this case, their differences are, among others, SOE plays role as source of national-level development fund (national budget/APBN) where ROE takes part as the source for local-level development (1st and 2nd level regional budget). Next, the second similarity is both of SOE and ROE run their business in monopoly system due to their contribution for public needs. The third factor explains that both are closely-engaged with public bureaucracy where they also suffer relatively identical disease which is over-bureaucratized and not market-oriented as well as far from competitive atmosphere. Besides these similarities, SOE and ROE also share some differences, first of all, SOE has broader economic size or scale than ROE. Second, SOE is operated in several sectors that not only controlling public needs but also having strategic values. Third, or the most important factor, SOE has relatively experienced re-inventing and revitalization phase first prior to ROE.

Agent theory becomes another theory that is broadly applied to analyze mechanism of banking management. Principally, the theory explains relationship between principal and manager/agent in the company with regards to interplay of resources management and control in the company (or bank) (Jensen, 1993). This agent and principal relationship encourages numerous problems where two main issues are asymmetrical information and conflict of interest among related parties, i.e., shareholders with the managers that creates agency costs of equity or conflict among shareholders and creditors, that creates agency costs of debt (Jensen, 1993). These asymmetrical information and conflict of interest occurred due to imbalanced information access between agent and principal, also different interests where both agent and principal defend their own interest in relation to the management of the company.

In terms of ROE management, CG is mostly related to responsible, ethical management by fulfilling transparency, accountability, responsibility, independency and fairness principles (Wakarmamu, 2015). Recently, CG studies also discuss corporate management according to CG manuals and principles that are not only related to performance and profitability but also ability of the company in encountering any crisis where CG becomes major factor to determine the company's management style (Sato, 2004; Nam, 2007; Prasetyantoko, 2008; Umanto *et al*., 2015; Wakarmamu, 2015). As a mechanism related to the relation of power among stakeholders, management and internal party of the company (Low, 2003), CG implies power and interest interplay among the bank's parties in the bank's decision making and operational processes. Thus, CG structure will affect the bank's decision-making process in bank with certain contribution to the bank's performance including its operational and financial performances. The CG structure (Umanto *et al*., 2015; Nam, 2007) consists of:

Boards: Indonesia adopts two-tier systems or dual boards systems (Darmadi, 2011) as appears in the involvement of board of commissioners and board of directors in Indonesian corporate entity (Provision declared in article 1 point 2 of limited company law number 40 of 2007 explaining that Indonesian companies have to be supported by corporate bodies comprising of General Meeting of Shareholders (GMS), Board of Directors and Board of Commissioners). In this system, Boards refer to Board Of Commissioners (BOC) and Board Of Directors (BOD) whose members are appointed by shareholders in the General Meetings of Shareholders (GMS). Board of Commissioners holds major role in monitoring function, including authorizing common action and policy taken by the Board of Directors as well as other key policies implemented by the management (Umanto *et al*., 2015). Board of Commissioners serves a non-executive function and comprises of members who are affiliated (non-independent) and not affiliated (independent) with the company. On the other hand, the Board of Directors runs daily managerial activity in the Company that is led by a President Director (Darmadi, 2011).

Discussion about structure of the Boards focuses on the Board Size assuming that the board with more BOD members will higher facilitates functions of each Board member yet also bring coordination and communication issue that may affect the Board's effectiveness (Lipton and Lorsch, 1992; Jensen, 1993). This concern regarding board size stimulated an assumption of poor performance risk due undersized board members or case of inefficient governance due to oversized Board members might be solved within "one size fits all" approach against the board size. Structure of the board is also affected by board diversity or variety of board of commissioners and board of directors members by gender, ethnicity, cultural background (Carter *et al*., 2003) as well as individual academic and professional background (Ferreira, 2010). There are two main aspects of Board Diversity which are requirement of the Company that is related with higher Board Diversity driven by regulatory framework or external party or whether the Board Diversity is believed will enhance value for the shareholders. The foremost consideration was feared to encourage Tokenism (a case in which the member board encounters improper treatment from outgroups that has its own assumptions against the member of the board due to minority consideration or having less opportunity than other members).

Analysis on element of the boards in CG structure also observes boards meeting frequency with certain implication to overall CG process, primarily in improving quality of the company's management. Implementation of boards meeting becomes a significant factor to bring higher Board's effectiveness assuming that after higher meeting frequency, board members will have better performance achievement and meet the shareholder's expectation (Vafeas, 1999). However, in a well-governed bank, the Boards are relatively having lower activity and involved in less-intense conflicts (Jensen, 1993). High meeting frequency will boost managerial costs and time, travel expenses, administrative resources as well as meeting budget. During the company downfall, the Boards will be evaluated by the shareholders frequently and organize higher meeting frequency to deal with the issues. Higher board activity will compensate extra time allocation, including for strategic planning and monitoring process.

Committee under the Board of Commissioners: Pursuant to the two-tiers system applied in Indonesian CG practice, the CG structure is also influenced by Committees under the Board of Commissioners (Audit committee, Remuneration and Nomination Committee and Risk Monitoring Committee) as bodies with certain functions related to decision-making and decision control processes. Audit Committee is the committee that holds several duties, among others, financial control, financial review, accounting treatment, internal audit planning and implementation as well as external auditor appointment and evaluation (Banks, 2004). The Audit Committee also serves a key role in corporate budget controlling consolidation activity including processes of financial reporting, monitoring the effectiveness of internal audit and implementation of enterprise risk management optimally, including integrity of published financial information and also holds an ability to balance pressures among the management, regulator, investor and public interest (Crisan and Fulop, 2014). According to agency theory, establishment of the Audit Committee will reduce agency cost (Ho and Wang, 2001). Other than Audit Committee, the Board of Commissioners is also helped by Remuneration and/or Nomination Committee. The Remuneration and/or Nomination Committee consists of three external members, including Independent Commissioner with competency or professional background that are relevant with Remuneration and Nomination processes (Murwaningsari, 2010). The Remuneration Committee also has a positive function in monitoring the boards (Boardroom Control) in the implementation of remuneration policy regarding performance of the boards members. Compensation that is provided to the Management are paid as salary, bonus and other kinds of income (Conyon and Peck, 1998).

Shareholders, stakeholders and holding company: In a particular institution, shares ownership will determine the corporate managerial style. As a regional-owned enterprise, shares ownership of regional banks is held by regional/provincial government that led to condition where strategic decision might be significantly influenced by the provincial government (Arens and Brouthers, 2011). Shares ownership patter in some countries also demonstrates the influence of holding company as majority shareholders of the bank. Holding company is a company established to control other companies by shares ownership, either as a genuine holding company with operational activity purely controlling the subsidiaries or as a holding company with other business activities than managing the subsidiaries. Bank's managerial system via holding company will enable the management to have higher flexibility as well as facilitate the management to perform continuous restructuration initiatives, i.e., against a less profitable business line (Nam, 2007).

METHODS

This research applied qualitative method with post-positivism approach. The post-positivism paradigm had its determinant philosophical benchmark towards an analysis of research question where the issue is observed and analyzed based on the cause that may influence outcomes (Creswell, 2009). Qualitative research is built upon series of interpretation and materials to identify locus or case of the study. The process itself refers to a transformative and adaptive process that converts a phenomena into set of representation, including field notes, interviews, dialogues, photos, recordings and research notes (Denzin and Lincoln, 2005). To verify result of the analysis, we also referred to several quantitative data related to profitability of bank DKI and performance of the boards over 2011 -2015 period such as, net income, gross and Net Non-Performing Loan (NPL) and numbers of meetings involving Board of Commissioners and Board of Directors.

Data were collected through in-depth interview sessions with relevant CG bodies in Bank DKI and had them triangulated for validation. Data collection was conducted in two steps. The first was conducted by literature review before continued arranging in-depth interview sessions with several selected informants who were especially selected as part of CG structure in Bank DKI. The in-depth interview is broadly acknowledged as one of the data collection technique in qualitative research. The method is commonly executed by setting-up particular conversation with set of questions prepared as guidance or specifically with limited scope of purpose. The differences between general and in-depth interview are purpose and participation of both researcher and informants.

RESULTS AND DISCUSSION

Boards hold an imperative function in Bank DKI's CG structure. Function of the Boards might be identified from Boards size, proportion of independent director, committees of the boards (under the Board of Commissioners and Boards of Directors) and boards meeting frequency (Umanto *et al*., 2015). In 2011-2014 period, Board of Commissioner of Bank DKI was comprised 3 commissioners and was amended by appointing another member into 4 commissioners in 2015. The Board of Directors recorded more stable composition where since 2011-2013 period, the BOD consisted of 5 Directors. However, the members were downsized in 2014 with only 4 Directors served where the condition remained until June 17, 2015. During the period, the BOD membership reported a dual position when Finance Director post was also served by the President Director. Further, the BOD membership was enlarged into 6 Directors after June 17, 2015 period where official Finance director and business risk director were appointed.

Regulatory standpoint on boards size (both BOC and BOD) in Bank DKI has complied to Bank Indonesia regulation (PBI) Number 8/4/2006 as amended under PBI number 8/14/2006 regarding amendment of PBI number 8/4/PBI/2006 concerning implementation of good corporate governance in commercial banks and SEBI 15/15 DPNP of 2003 regarding implementation of good corporate governance in commercial banks. Members and composition of the boards during 2011-2014 has procedurally concerned fulfilling those regulations according to the regulatory framework and guideline. Nevertheless, during 2011-2015 period, the members and composition of BOD was considered insufficient according to operational and business development aspects requirement, especially lack of BOD members. The insufficient BOD Size over 2011-2015 period prompted excessive work load with regards to Bank DKI's business development regardless the assignment set by the shareholders to boost performance of the bank. On the other hand, there was also major work load problem encountered by every director during the period due to lack of directors that also demonstrated how provisions of Bank DKI articles of association adapted "one size fits all" approach on the boards size that implied on quality and performance mechanism of the boards, either individually or collegially. Weakness arose from Bank DKI's structure due to Boards Size issue was took place in 2014 when finance director position was vacant and triggered dual position case by president director who also served in the finance director post.

Board of commissioners membership was adversely changing due to several factors, i.e., end of tenure, unsettled election process as well as other issues related to GMS resolutions. During 2013 and 2014 periods, the CG structure shortcoming in terms of Boards Size that was occurred in board of commissioners body due to ongoing and unfinished fit and proper test process for bank DKI's BOC. Vacant position in BOC structure implied on supervisory activity done by the Board of Commissioners where the condition also affected structure of the k this condition was considered acceptable as board of commissioner's functions that were supported by these committees had been evaluated effective in terms of supervisory and advisory activity on the Bank's managerial practice.

The motion exercised in Bank DKI represented how insufficient Boards Size affected overall performance of the Boards. Amidst rapid business growth booked by Bank DKI for last 5 consecutive years, the board size provision in the articles of association became a notable burden where the board size requirement had been no longer designed referring to bank's business demands optimally. As a result, the period of 2013-2015 recorded negative trend of profit and non performing loan (gross) where the profit was falling and NPL was raising, on the other hand. In 2013, Bank DKI booked net income (Loss) of Rp592 billion and was down to Rp468 billion in 2014 and Rp232 billion in 2015. Consequently, NPL gross achieved by bank DKI soared from 2.38% in 2013-4.38% in 2014 and higher-7.965 in 2015 as in line with decreasing Net Income (Loss).

While the shareholders had declared that former Boards composition to be sufficient, the management faced an urgency to recruit more Boards members by considering Bank DKI's condition and proposing a recommendation to the GMS or shareholders to appoint new director or commissioner. As Bank DKI's embraced larger business scale and higher business complexity as well as according to change in BOD members in 2015, the management required larger boards with more specific job desk, especially to minimize risks encountered by the bank. In addition, larger board size was also considered important concerning Bank DKI's rapid and highly-diversified business growth. Adjustment of the boards composition and size simultaneously with the bank's business size and scale expansion was believed will provide higher contribution to corporate value from diversity of competency for better decision-making process (Ajanthan *et al*., 2013).

Governance and ownership structures that are closely associated with institutional logic might strengthen or restricted discretion of the president director in executing his duties. Director is a corporate body who may acts as most autonomous or restrained in the corporate organization structure as implied by mandate acquired by the board of directors or delegated by owners (shareholders) to maintain or amend currently implemented strategic policy (Hutzschenreutre *et al*., 2012). The interaction with shareholders led president director into a dualistic position whether to force sound communication and coordination with the shareholders or to maintain performance of the bank to meet the target as drew by the shareholders. President director has received a mandate as consequence of Bank DKI's status as regional-enterprise bank under authority of provincial government, representation of the shareholders, to have direct power in influencing every strategic decision making in the bank (Clark *et al*., 2014).

As mentioned by Bank DKI's President Director 2011-2015 period, the relation and interaction between President Director and other CG bodies were considered less optimum namely due to absence of law that is specifically regulating good corporate governance for regional-owned enterprise based on GCG best practice. The condition brought structure and mechanism applied in Bank DKI to fully adapt general CG provision with flaws in several aspects. Referring to this condition, quality of CG in Bank DKI was running without definite regulatory framework where aspiration and resolution of the governor as shareholder's representation were dominant both in business development and other strategic aspects in bank DKI.

Other than boards size and president director, boards diversity and boards independent member from external party also become important aspects in analyzing role and contribution of Boards in CG Structure. Bank DKI Board of Commissioners and Board of Directors Membership 2011-2015 data explained that diversity of BOC and BOD members tended to be homogeneous and dominated by Boards member with Economics and Banking background as we can also see representation of DKI Jakarta provincial government as the shareholders in bank DKI's Board of Commissioners composition. In long-term basis, this homogeneous boards diversity may cause certain issues in dealing with bank DKI current and future business development requirement. To solve this issue, requirement to recruit more boards members with various competency background had been promoted in 2015 period by appointing business risk director in june 2015. Even though Bank DKI had taken major change in boards composition, the boards members are still relatively homogenous by background, as mentioned in Shareholder's aspiration presented in the General Meetings of Shareholders (GMS). Thus, involvement of BOD members in Bank DKI and other regional banks shall concern a condition where CG implementation in regional Banks shall not only ensure to recruit parties with relevant competencies in CG structure but also confirm that fulfillment of boards diversity becomes a commitment to have a running well company.

Based on composition of independent Boards members, during the 2011-2015 period, majority of Bank DKI's BOD members were independent with only 1 director appointed from internal candidate who was compliance director. The composition was regarded satisfying from operational and managerial aspects where Bank DKI's management assumes that the appointment of external candidate will enhance BOD independency collegially. Yet, domination of BOD member from external party was considered less ideal by the Shareholders as they expected more Directors appointed from internal parties to higher motivate employees of Bank DKI in succession plan to become Top management. Referring to transcript of in-depth interview with management and shareholders, bank faced a requirement of independent boards member that was beyond independency but also related to competency and qualification profile required for the bank's business development.

Table 1: Frequency of board meeting in bank DKI 2011-2015

Years	Total BOD meetings	Average meeting attendance
2011	40	91.60
2012	32	98.80
2013	41	90.24
2014	33	100.00
2015	56	93.60

Boards composition with non-executive director would become determinant for the company's performance to oversee the management as well as contribute a relevant complementary knowledge. The complementary knowledge function was failed to be optimally executed in bank DKI considering that qualification of internal boards candidate had not been fulfilled yet. On the other hand, intervention from certain parties during the candidacy BOD members from external parties as well as coordination issue became major challenges for the independent BOD members to act as "professional referees." Analysis on bank DKI's Board Diversity in terms of less optimum "personal referees" function was result of ineffective communication as well as coordination, also competency and experience gaps among the BOD members from internal and external parties. However, as key body in the Bank's CG structure, composition and working mechanism among the Boards members were essential in strategic decision making and Bank's target achievement processes where solid boards with trust to each other will become key of overall governance process in the bank, particularly in doing and promoting effective monitoring process. Next aspect to analyze Board's role and function in bank DKI's CG structure is boards meeting. Table 1 above presented the summary of Bank DKI's Boards Meeting implementation from 2011-2015 period.

As seen from table above, it can be inferred that the BOD arranged high meeting frequency in every period with particular meeting agenda related to Bank DKI's strategic aspect and working program. In bank DKI's CG structure, boards meeting frequency is considered as an indicator of board's activity. With high meeting frequency and tight meeting agenda, management of bank DKI submitted general assessment that the BOC and BOD had carried out their working programs by means of those meetings. This also indicated that the management viewed boards meeting as important factor to improve effectiveness of the boards in the bank's managerial activity.

Representative of the shareholders explained that rapid meeting implementation was not always effective, thus, it reflected an urgency to solve several issues that needed to be intensively monitored (Vafeas, 1999). This condition was illustrated in Table 1 showing total meeting of 56 meetings that were organized under a circumstances where Bank DKI recorded significant decrease in net income (loss) and increase in NPL throughout 2015. This became the highest meeting frequency over 2011-2015 period. In addition, according to meeting implementation in 2011-2015 period, there was a monitoring flaw against meeting resolution and its realization conducted by the management (Vafeas, 1999) in bank DKI. Increasing meeting frequency also presented higher boards activity that consumed more time allocation including for strategy formulation and monitoring processes (Jensen, 1993).

Discussion about boards meeting held in 2011-2015 period also demonstrated major issue from administrative aspect that occurred in preparation of minutes of meetings. This administrative issue constrained meeting agenda follow-up that affected operational activity as well as realization of effective working program that took longer time to be executed. Minutes of meeting distribution mechanism reflected extensive and asymmetrical information scheme where access to meeting agenda became highly restricted and tended to be over-bureaucratized. With high meeting schedule, this distribution mechanism will cause delay of information of the result of the meeting to related departments and divisions to be executed. In a very tight meeting schedule arrangement, such distribution mechanism of meeting will cost delay in dissemination of meeting resolution to related directorate and division as the working program executor.

Board of Director had remained supervising the meeting resolution directly that imposed heavier work load to the board of directors by sector in terms of bank's managerial activity. Mechanism of meeting implementation in the bank over 2011-2015 period illustrated allocation of time required by the boards to ensure meeting agenda were completely discussed. High meeting frequency and administrative delay in documenting and distributing the meeting resolution will generate risks of additional cost and time to undertake monitoring or re-explained previous issues that had been discussed in previous meetings. By examining requirement of bank DKI as a regional bank, the management confirmed that those meetings were necessary, especially to coordinate the working program so that the high meeting frequency was acceptable and still became an indicator of BOC and BOD working implementation effectiveness.

Regional banks is also supported by Audit Committee body in their CG Structure with notable responsibility related to independent duty in the Bank's Governance as regulated under PBI Number 8/4/2006 as amended under PBI Number 8/14/2006 and SEBI Number 15/15/DPNP of 2003. Establishment of the Audit

Committee had complied with regulation prevailed by the regulator in terms of independency and membership from external parties as had also conducted financial monitoring and controlling functions. In Bank DKI, Audit Committee members were appointed from independent party with relevant expertise and competency backgrounds to prevent any possibility of intervention against the Audit Committee (Nam, 2007). The Audit Committee serves several functions in Bank DKI's CG structure, among others, financial control, financial review, Accounting Treatment, Internal Audit planning and implementation as well as External Auditor appointment and evaluation (Banks, 2004). By means of these active participation, the Audit Committee was evaluated had well-exercised its role in decision making process as well as supporting the implementation of BOD, Management, Internal Auditor and External Auditor duties to maintain balance of relation among the Management, Regulator, Investors and public interest (Crisan and Fulop, 2014) also to perform comprehensive supervision in helping the Bank to cut agency cost (Ho and Wang, 2001) occurred after asymmetrical information among CG bodies in the Bank. In this regard, Audit Committee might bridge information exchange and distribution in order to encourage more transparent and accountable Bank's management. The Audit Committee also contributed in improving internal control as well as held particular role as an effective monitoring tools to enhance quality of the supervision.

Bank DKI's CG structure was also highlighted risk monitoring committee and remuneration and nomination committee as committees under the board of commissioners besides audit committee. Function of the remuneration and nomination committee is principally related to remuneration policy applied in regional banks as well as to provide recommendation concerning selection process and succession plan of BOC and BOD members in the regional banks (Umanto *et al*., 2015). On the other hand, risk monitoring committee was assigned as a committee with specific duty to oversee risk management practice in the bank where the implementation of risk monitoring committee's working program was done simultaneously with the audit committee. Active participation of risk monitoring committee indicated sound coordination in monitoring and risk mitigation aspects. These were needed to safeguard sustainability of Bank DKI's business that is operated in banking sector which has high-risk relatively.

Provincial government of DKI Jakarta was Key shareholders or majority shareholders in Bank DKI's CG structure, altogether with other agencies under scope of DKI Jakarta provincial government as representation of bank DKI's shareholders. The key stakeholders held significant influence in the bank's decision making process (Arens and Brouthers, 2011) ranging from working direction to the implementation of working program that were executed by the bank. Bank DKI also encountered several situations against institutional shareholders, besides the requirement to support programs implemented by DKI jakarta provincial government as majority shareholders, that affected CG mechanism between the shareholders and bank DKI. This ownership structure constrained coordination process with the shareholders, namely related to dual position issue served by board of commissioners member who was appointed from shareholders representative to run CG function in bank DKI. This was the case explained in board of commissioners meeting record, when heru budi hartono failed to attend several bank DKI BOC meetings organized in 2015 due to his another position as Chairman of regional finance and assets management agencies (BPKAD). However, as an entity owned by DKI Jakarta provincial government, bank DKI as a Regional Bank also has distinctive requirement as a mission to act as partner of DKI Jakarta provincial government or its shareholders, to serve in social obligation focusing on consumer segment throughout subsidized flats mortgage program, Jakarta smart Card (KJP) as well as other programs implemented by the DKI Jakarta Provincial Government. These programs were heavily considered as political agenda of the provincial government (Arens and Brouthers, 2011) and the program realization triggered direct impact against the Bank's operational aspect.

As key stakeholders, the provincial government also interfered nomination process in the bank. One of the boards members should be appointed from DKI Jakarta provincial government as shareholders representative. Even though the shareholders still actively involved in the boards member appointment, management of bank DKI viewed this intervention to be fair and executed in correct nomination mechanism under the coordination of remuneration and nomination committee. Thus, mechanism and interaction between bank DKI and the Shareholders was showing dominant characteristic in CG structure related to shareholder's power in determining Bank's working program. As a regional bank, Bank DKI held obligations to support implementation of DKI Jakarta provincial government's initiative that were executed as mass program with micro and small scales requiring major resources allocation.

CONCLUSION

Bank DKI's CG structure in 2011-2015 period has Generally complied with CG manual prevailed for bank dki as both indonesian commercial bank and regional bank yet the CG structure has not been completely flawless. Ideal fulfillment by composition and function has been achieved by committees under the board of commissioners. In broader level, case of CG implementation in Bank DKI also highlighted importance of particular regulatory framework for regional banks to strengthen management of the regional banks that serve special mission as Regional-Owned Enterprise. Boards aspect demonstrated several weaknesses in terms of boards size and boards independent members appointed from external party. The boards members have complied with independency and requirement provisions yet the composition remained homogeneous. Most of the boards members were appointed from external parties who were considered more suitable due to absence of eligible candidate from internal party in the bank. Implementation of CG in Bank DKI also presented very high Boards meeting frequency, especially BOD meeting that was considered as indicator of the board's performance effectiveness, nevertheless, the meeting implementation was also cost major resources allocation, primarily for meeting resolution documentation and distribution that were evaluated less effective until today. In Bank DKI, high meeting frequency also represented complex business demands and the needs of intense management coordination to preserve the Bank's performance and business continuity. However, the president director held major role as leader in the company's managerial activity while also acts as central person in the bank's operational activity information dissemination. As a key body in the CG structure, shareholders also had major influence towards bank DKI. Bank DKI is a regional bank and had its working program arranged as realization of DKI Jakarta Provincial Government's agenda, who is Majority Shareholders of the Bank where execution of the program brought notable impact on the Bank's resource allocation. Nonetheless, the shareholders imposed only minor intervention and engaged in favorable relationship with the management that did not disrupt the bank's managerial process.

According to result of Bank DKI CG structure research during 2011-2015, the condition implied the need of specific CG regulatory framework for regional banks that concerns its mission and function as regional-owned enterprise. Boards membership and size shall also consider bank DKI's nature of business and growth beyond nomenclature compliance to existing manuals and guidelines. Efficiency of meeting implementation and administrative mechanism as well as faster meeting resolution dissemination will help meeting agenda realization done by every unit. In Bank DKI, the CG structure also indicated importance of an internal candidate development plan to be promoted to Boards level. Last but not least, Bank DKI's working program and capacity shall be aligned, adjusted and coordinated with agenda of DKI Jakarta Provincial Government as its shareholders to optimize CG structure in Bank DKI. This is also essential to drive optimum working program implementation and to prevent excessive work load on the Bank's overall performance target.

Considering identical characteristics of all regional development banks in Indonesia, analysis on CG in PT Bank DKI demonstrates a pattern of CG structure where under the same legal framework and attribute, every regional development bank in Indonesia exercise CG practice according to one-single model regulation. Within such condition, boards and shareholders remain important factors in CG structure of the regional development banks where interaction between those two factors will influence actual CG practice in each bank. In greater term, analyzing the ownership of regional development banks, the CG practice in each bank directly reflects status of local government's governance as the Majority Shareholder such as interaction with the bank's management, respond to the bank's performance up to adjustment if BOD or BOC (Boards) succession is required. To sum up, CG of Indonesian development banks indicate particular needs that shall be regulated separately from commercial and other private banks. As we can see from bank DKI's case, conflicting area between the shareholders and managers of the bank shall concern the bank's going concern where special mission mandated by the Provincial government shall not be risking sustainability of the bank's performance.

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