

Corporate Governance Practices of Adventist Higher Education Institution in Indonesia

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Abstract— The study analyzes the practice of corporate governance based on the respondent of the Adventist Higher Education Institutions in Indonesia. The study is descriptive and a quantitative methodology was used for the study. The study made use of the stratified-random sampling and a total of 157 respondents participated in the conduct of the study from the three higher education institution in Indonesia, namely: Universitas Advent Indonesia (UNAI), Universitas Klabat (UNKLAB), and Perguruan Tinggi Advent Surya Nusantara (PTASN). the study concluded that Adventist Higher Education Institution have practice corporate governance accordingly. Based on the four indicators of corporate governance, the two highest respond goes to Control and oversight of management and adherence to legal prescription. And the lowest respond are on transparency and accountability. In overall the study sees that Adventist Higher Education Institution adhere to legal prescription in their practices since it is the only indicator without significant difference of respond. Thus, the study support the current practice of corporate governance in the Adventist Higher Education Institution.

Index Term— Adventist, Corporate Governance, Education, Indonesia,

I. INTRODUCTION

Indonesia is one of the countries that are so much concerned about quality education. They link education with development by using schooling as a means to accomplish national unity, self-reliance and greater equality. The educational system in Indonesia has three basic objectives, namely: expansion and equity, improvement of quality and relevance, and implementation of autonomy in higher education (Act of the Republic of Indonesia on National Education System, 2003, p. 2).

Higher education in the Seventh-day Adventist (SDA) settings is a unique system with distinctive features. Brown (1980) describe the purpose of education is to provide special opportunities for SDA youth who have satisfactorily completed secondary school instructions, and who are desirous of pursuing academic disciplines in the liberal arts, obtaining associate or baccalaureate degrees, preparing for life-work, or entering professional or graduate schools. Brown further stated that the education institution also help develop in their students a higher concept of service to God and man (p. 18). Thus, the essential business of a Seventh-day Adventist university or college on the graduate level are mastery, critical evaluation, discovery and dissemination of knowledge and the nurture of wisdom in a community of Christian scholars.

In Indonesia, the educational institutions from elementary, secondary, and higher education institutions are conducted for the purpose of transmitting their own ideals, beliefs, attitudes, appreciations, habits, and customs, and because they want them to become “good, patriotic, law-abiding citizens” and for Seventh-day Adventist, a loyal one. In addition to being law-abiding citizens and loyal Seventh-day Adventists, the

ultimate objective of education is the restoration of students into the image of God, the perfection in which man was created. White (1951), one of the early pioneers of the SDA church, made this statement “Higher than the highest human thought can reach is God’s ideal for His children. Godliness – Godlikeness – is the goal to be reached (p. 18)”

S. She furthermore stated that the supreme objective of the SDA education is, therefore, the likeness to God in character as a result of the “harmonious development of the physical, mental, and spiritual powers.” This is based on the objective that any level of educational institutions should prepare its students “for the joy of service in this world and for the world to come” (White, 1951, p. 13).

T. The management of the school is under the control of a board of directors, appointed in harmony with the provisions of the operating policy of the union, and consisting of at least two-thirds of the members of the church laymen. All organizations and institutions need effective leaders, particularly educational institutions, because schools are established to produce the kind of graduates and citizens that they expect.

U. Governance in higher education refers to the means by which higher educational institutions are formally organized and managed, though often there is a distinction between definitions of management and governance. In simplicity, university governance is the way in which universities are operated.

II. REVIEW OF RELATED LITERATURE

A. Why Corporate Governance?

A number of studies in academic journals have used literature in papers investigating corporate governance models (Douma, 1997; Jacoby, 2000; Kay and Silberston, 1995; Maignan and Ferrell, 2003), governance reforms (Westphal and Zajac, 1998) board behavior and effectiveness (Kose and Senbet, 1998; Pettigrew and McNulty, 1995) and executive compensation (Conyon and Schwalbach, 2000). A growing body of literature has investigated governance issues from the perspective of stakeholders (Frooman, 1999; Hillman et al., 2001; Luoma and Goodstein, 1999; Ogden and Watson, 1999). In recent decades, there has been a propagation of public interest into corporate governance as an effect of corporate scandals such as Enron or WorldCom and abuses of managerial power in the form of fat cat salaries and bonuses (Plender, 2003).

Corporate governance is a manner in which a company is organized, run and supervised. It is basically a structure of relationship between the company on the one hand, a legal entity in itself, and its stakeholders, workers, creditors, employees, society and shareholders, on the other hand; as well as the legal and institutional framework, the structure of law, and the structure of institutions within which the company

operates; and the relationship of the management with the board of directors and stakeholders (Garcia, 2006).

Corporate governance, a term that scarcely existed before the 1990s, is now universally invoked wherever business discussed (Keasey et al, 2006). The subject has spawned consultancies, academic degrees, encyclopedias, innumerable articles, conferences and speeches and most of OECD nations revised their corporate governance practices (OECD, 2003). Moreover, Keasey et al (2006) argue that the subject good governance has also become a destination board for a bandwagon carrying those who would take the corporation in myriad directions (p. 1). A director according to Webster's dictionary "is one of a group of persons entrusted with the overall direction of a corporate enterprise." A board of directors is a group of individuals who are elected by the ownership of a corporation to have oversight and guidance over management and who look out for shareholders' interests. The act of oversight and direction is referred to as governance. If the board is to operate effectively it must create a culture of openness and trust, combined with mutual respect. Such an environment creates a virtuous circle of behavior and expectations, which can all too easily degenerate into a vicious circle of behavior. Effective boards therefore need a proper balance of skills and experience. In the Enron Corporation bankruptcy and scandal, the firm's board of directors is being sued by shareholders for mismanaging interests (Plender, 2003). New accounting rules in the United States and Europe are being passed to enhance corporate-governance codes and to require much more extensive financial disclosure among publicly held firms. The roles and duties of a board of directors can be divided into four categories: control and oversight of management, adherence to legal prescriptions, consideration of stakeholders' interests, and advancement of stockholders' rights.

Wallace & Zinkin (2005) argue that good corporate governance is determined by number of factors, moreover said that effective codes of governance that lead to transparent reporting; effective board governance and process; effective independent directors; informed business decisions; a culture of risk management embedded in the organization as a whole; and shareholders actively interested in ensuring that good corporate governance is practiced. Thus, reporting procedures and disclosures by themselves are unfortunately no guarantee of good corporate governance, as Enron proved only too clearly (p. 34). The Forum for Corporate Governance in Indonesia (2006) points out that objective of corporate governance is to create added value to the stakeholders. More narrowly, the terms of corporate governance can be used to describe just the role and practices of the board of executives/the board of directors, the board of commissioners, managers, and shareholders. There are four essential elements of corporate governance elaborated by the Organization for Economic Co-operation and Development (OECD). The elements are: fairness, transparency, accountability, responsibility. (OECD as described in FCGI, 2006)

Higgs (2003) suggest that to operate effectively means to create a culture of openness and trust, combined with mutual respect (p. 19). Hardy (1984) suggest that in order to fulfill its monitoring function, the board must require periodic performance reports from the chief executive officer-summaries of performance on all objectives related to long range goals. Cadbury sees that board effectiveness can be judged by performance against appropriate benchmarks and accountability is measured by the degree to which Boards respond to the needs of those they are there to serve. The two go together to the extent that, the more accountable a company is the more its standards of performance are set objectively from outside the enterprise (As seen in Wallace & Zinkin, 2005, p. 34).

Gavino, et. al. (2001) sees that effective governance is usually characterized by the elements such as accountability as the basis for all relationships (p. 222). Dellaportas, et. al. (2005) also sees that governance and accountability are about relationships. The word governance refers to authority and control. Governance means the strategy, method and manner in which a group of people or so called the governance body directs, controls, and manages an organization. The governance body of a corporation normally rests with the board of directors and senior management, who possess the authority to govern or control. With authority comes responsibility. Accountability is the responsibility of those charged with governance to account for their choices, decisions and actions (p. 5).

Moreover, strategic competitiveness is achieved when a firm successfully formulates and implements a value-creating strategy. When a firm implements such a strategy and other companies are unable to duplicate it or find it too costly to imitate, this firm has a sustained (or sustainable) competitive advantage (Maritan, 2001). An organization is assured of a competitive advantage only after other's efforts to duplicate its strategy have ceased or failed. In addition, when a firm achieves a competitive advantage, it normally can sustain it only for a certain period (Mitchell, 2000). The speed with which competitors are able to acquire the skills needed to duplicate the benefits of a firm's value-creating strategy determines how long the competitive advantage will last (Bonabeau and Meyer, 2001). Higgs (2003) sees that the board is collectively responsible for the success of the company by directing and supervising its affairs. In the past it has tended to be difficult to demonstrate utterly that there was a clear link between good governance and better share prices.

B. Previous studies and literature

Nevertheless, there has been an interesting study undertakes of 1,500 public listed companies in the US over the period September 1990 to December 1999, which would seem to indicate that there is a strong correlation between good corporate governance and superior shareholder performance (Gompers, Ishii, and Metrick as seen in Wallace and Zinkin, 2005, p. 12). Governance in higher education refers to the means by which higher educational institutions are formally organized and managed, though often there is a distinction between definitions of management and governance. In simplicity, university governance is the way in which universities are operated.

Governing structures for higher education are highly differentiated throughout the world. As Altbach (2005) noted, the different models for higher education throughout the world nonetheless do share a common heritage. The current debates are over collegial and shared forms of governance contrasted to corporate and business forms of institutional governance. For the past ten to twenty years, there has been a growing interest to research how college years affect students' lives. These efforts have been made both from the secular level (Astin, 1993; Pascarella & Terenzini, 1991) as well as the religious level (Dudley, 1994; Dudley, 1999; Garber, 1996; Moore, 1988).n drag them to the first column. Make the graphic wider to push out any text that may try to fill in next to the graphic.

III. METHOD OF THE STUDY

The study is descriptive and a quantitative methodology was used for the study. Questionnaire was constructed and used as the measuring instrument. There were four main sections of questionnaire, included there are: control and oversight of management, adherence to legal prescription, transparency, and accountability. In presenting and analyzing the results of the study, Statistical Package for the Social Sciences (SPSS) was used. The study is descriptive. The study made use of the stratified-random sampling and a total of 157 respondents participated in the conduct of the study from the three higher education institution in Indonesia, namely: Universitas Advent Indonesia (UNAI), Universitas Klabat (UNKLAB), and Perguruan Tinggi Advent Surya Nusantara (PTASN). The descriptive statistics used in the present study are based on tables of means distribution for the responses of corporate governance practices with respect to demographic profile of the respondents which is board of directors, administrator, dean and department head, faculty, and staff. F-test used to see if there is a significant difference in the answers of the respondent based on the job.

IV. RESULTS OF THE STUDY

The study was conducted to analyze the respondent awareness on the corporate governance practices of Adventist Higher Education Institution in Indonesia based on the respondent job demographic profile that comprises of: board of directors, administrator, dean and department head, transparency, and accountability.

C. Transparency

Table 3 below look upon the respondent awareness regarding the practice of corporate governance in terms of Transparency at Adventist Higher Education Institution in Indonesia.

TABLE III
TRANSPARENCY

	Mean	Std. Dev	Max	
			Min	
Board Of Directors	4.0234	.18063	3.74	4.26
Administration	3.9744	.19231	3.69	4.31
Dean and Dept Head	3.5268	.36655	3.26	4.37
Faculty	3.6243	.25236	3.33	4.00
Staff	3.7133	.22922	3.50	4.15
Total	3.7724	.31143	3.26	4.37

ANOVA

	Sum of Squares	Mean Square	F	Sig.
Between Groups	1.706	.426	6.660	.000
Within Groups	2.562	.064		
Total	4.268			

Table 1 above shows the results of the respondent perception regarding the practice of corporate governance regarding control and oversight of management. The results of statistical test, F-test, shows that there are significant difference between the perception of respondents regarding control and oversight of management conducted in Adventist Higher Education Institution in Indonesia as shown by F-count 6.660 with $p = 0.000$ at $\alpha = 0.05$. The difference could be due to the difference of perception dean and dept. head and faculty that have minimum perception 3.26 and 3.33, respectively. Thus, the lowest respond among respondent of the study. Due to this difference, the management of Adventist Higher Education Institutions should overview their control and oversight practices. Nonetheless, in overall, the respondents agree with the practices of control and oversight of management in the Adventist Higher Education Institution with mean value of 3.7724.

A. Adherence to Legal Prescription

Table 2 below look upon the respondent awareness regarding the practice of corporate governance in terms of Adherence to Legal Prescription at Adventist Higher Education Institution in Indonesia.

TABLE II
ADHERENCE TO LEGAL PRESCRIPTION

	Mean	Std. Dev	Max	
			Min	
Board Of Directors	3.8509	.28132	3.53	4.21
Administration	3.9102	.16438	3.69	4.08
Dean and Dept Head	3.5185	.37695	2.96	4.04
Faculty	3.6852	.19478	3.40	3.89
Staff	3.7011	.22196	3.41	4.00
Total	3.7332	.27823	2.96	4.21

ANOVA

	Sum of Squares	Mean Square	F	Sig.
Between Groups	.568	.142	2.115	.109
Within Groups	1.677	.067		
Total	2.245			

Table II above shows the results of the respondent perception regarding the practice of corporate governance on adherence to legal prescription. The results of statistical test, F-test, shows that there are no significant difference between the perception of respondents regarding adherence to legal prescription conducted in Adventist Higher Education Institution in Indonesia as shown by F-count 2.115 with $p = 0.109$ at $\alpha = 0.05$. The respondent shows agreement in the institution adherence to legal

prescription. In overall, the respondents agree with the practices of adherence to legal prescription in the Adventist Higher Education Institution with mean value of 3.7332.

C, Transparency

Table III below look upon the respondent awareness regarding the practice of corporate governance in terms of Transparency at Adventist Higher Education Institution in Indonesia.

TABLE III
TRANSPARENCY

	Mean	Std. Dev	Min	Max
Board Of Directors	3.8026	.08324	3.68	3.95
Administration	3.8846	.12335	3.69	4.08
Dean and Dept Head	3.3333	.10094	3.19	3.48
Faculty	3.4762	.11724	3.25	3.63
Staff	3.5408	.07102	3.41	3.64
Total	3.6075	.22936	3.19	4.08

ANOVA

	Sum of Squares	Mean Square	F	Sig.
Between Groups	1.694	.423	41.415	.000
Within Groups	.358	.010		
Total	2.052			

Table III above shows the results of the respondent perception regarding the practice of corporate governance on transparency. The results of statistical test, F-test, shows that there are significant difference between the perception of respondents regarding transparency conducted in Adventist Higher Education Institution in Indonesia as shown by F-count 41.415 with $\rho = 0.000$ at $\alpha = 0.05$. The difference could be due to the difference of perception dean and dept. head and faculty that have lowest mean respond of 3.333 and 3.4762, respectively. Thus, the lowest respond among respondent of the study. Due to this difference, the management of Adventist Higher Education Institutions should overview their transparency policy or practices. Nonetheless, in overall, the respondents see the institutions as transparent with mean value of 3.6075.

D. Accountability

Table IV below look upon the respondent awareness regarding the practice of corporate governance in terms of Accountability at Adventist Higher Education Institution in Indonesia.

TABLE IV
ACCOUNTABILITY

	Mean	Std. Dev	Min	Max
Board Of Directors	3.8245	.18732	4.05	3.8245
Administration	3.8205	.15127	4.00	3.8205
Dean and Dept Head	3.5061	.16342	3.81	3.5061
Faculty	3.5820	.12446	3.71	3.5820
Staff	3.6345	.13066	3.81	3.6345
Total	3.6735	.19300	4.05	3.6735

ANOVA

	Sum of Squares	Mean Square	F	Sig.
Between Groups	.494	.123	5.267	.003
Within Groups	.586	.023		
Total	1.080			

Table 4 above shows the results of the respondent perception regarding the practice of corporate governance on accountability. The results of statistical test, F-test, shows that there are significant difference between the perception of respondents regarding transparency conducted in Adventist Higher Education Institution in Indonesia as shown by F-count 5.267 with $\rho = 0.03$ at $\alpha = 0.05$. The difference could be due to the difference of perception dean and dept. head and faculty that have lowest mean respond of 3.5061 and 3.5820, respectively. Thus, the lowest respond among respondent of the study. Nonetheless, in overall, the respondents see the institutions as accountable with mean value of 3.6735. 3.7774, 3.7332, 3.6075

E. Corporate Governance

Table V below shows the overall results of the respond of the respondent regarding corporate governance practices of Adventist Higher Education Institution regarding: control and oversight of management, adherence to legal prescription, transparency, and accountability.

TABLE V
CORPORATE GOVERNANCE

	Mean	Practices
Control and Oversight of Management	3.7774	To a high extent
Adherence to Legal Prescription	3.7332	To a high extent
Transparency	3.6075	To a high extent
Accountability	3.6735	To a high extent
Corporate Governance – Overall Respond	3.6979	To a high extent

The table above depicted the overall respond of respondent regarding corporate governance practices. The respondent in overall agrees in the practice of corporate governance in Adventist Higher Education Institution in Indonesia with mean value of 3.6979. Control and oversight of management and adherence to legal prescription is the two highest indicators on corporate governance practices. On the other hand, transparency

and accountability have the lowest respond.

V. CONCLUSION

Based on the results of the study, the study concluded that Adventist Higher Education Institution have practice corporate governance accordingly. Based on the four indicators of corporate governance, the two highest respond goes to Control and oversight of management and adherence to legal prescription. And the lowest respond are on transparency and accountability. In overall the study sees that Adventist Higher Education Institution adhere to legal prescription in their practices since it is the only indicator without significant difference of respond. Thus, the study support the current practice of corporate governance in the Adventist Higher Education Institution.

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