

IMPLEMENTATION OF CORPORATE GOVERNANCE AND POST-PANDEMIC GOVERNANCE RESULTS: A CONCEPTUAL REVIEW OF MSMEs

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Abstract

Large companies generally implement good corporate governance (GCG) more than MSMEs. The economic factor that is a critical and sustainable issue is the weak GCG mechanism in MSMEs. The global crisis in the COVID-19 pandemic damaged the socio-economic conditions of MSMEs due to various changes and uncertainties in corporate governance. The International Monetary Fund predicts that in 2023 there will be an economic recession. This research method uses a phenomenological approach and qualitative descriptive analysis with an in-depth literature study. This study aims to determine how MSME companies are ready to face the challenges and uncertainties of business continuity plans to meet the threat of economic recession. The conclusion is that GCG can build trust and predictability for investors. The community also supports MSME players developing startup business innovations to encourage economic growth.

Keywords: GCG, MSMEs, company performance, pandemic, recession.

JEL Classification: D04; F65; G34.

INTRODUCTION

The Indonesian economy is divided into several sectors, one of which is MSMEs. Ninety-nine percent of businesses in Indonesia are MSMEs, consisting of 63.5 million micro-enterprises, 783,132 small businesses, and 6,702 medium-sized enterprises. The development of MSMEs significantly affects economic growth through fundamental changes in distributing business results and being able to absorb a lot of labor. (Nugraheni & Martono, 2020).

The first Covid-19 occurred in Wuhan, China; in December 2019, more than 200,000 cases impacted various countries, including Indonesia. (Fernandes, 2020). This affects the decline in households, public consumption, company performance, threats to the banking sector, termination of employment, cessation of production, and even business closures.

The post-pandemic era of the New Normal provides an opportunity for affected MSMEs to rise from the difficulties caused by the PSBB. It is proven that as long as the PSBB is implemented, there are still MSMEs that are able to survive and even increase their business volume as a source of income that contributes significantly to the budget and can create entrepreneurial opportunities. (Keskin & Şentürk, 2010). In a study conducted by (Mahera & Nurwati, 2020), it was stated that although Indonesia is experiencing a national economic downturn, MSMEs

are believed to have an essential role as a pillar and buffer that can save the Indonesian nation. To improve the existence of this sector, every party, both from the external and internal environment of MSMEs, must increase the capability and independence of their financial performance by applying the principles of Good Corporate Governance (GCG). Indeed, GCG is not a solution to the problem. However, many MSMEs still have not implemented GCG to create a more robust internal control, accountability, and transparency system and strengthen the strategic vision of MSMEs. (Flowers et al., 2013).

The development of MSMEs contributes significantly to the government's budget to support the country's economy. However, in carrying out their business, MSMEs still have internal and external obstacles that impact failures, such as lack of managerial competence, inability to coordinate company operations, and financial control. Sometimes managers or business owners do not think about managing the company well, just about huge profits. (Mulyadi, 2014).

Most MSMEs focus on strengthening access to resources but ignore the implementation of GCG. GCG performance provides excellent benefits for MSMEs in improving the quality of their business and managing it regularly. It requires a commitment to implementing GCG on MSMEs from all parties to achieve goals effectively, efficiently, and economically in maintaining positive values, increasing the number of investors, creating short-term and long-term wealth, and reducing the risk of a bankruptcy crisis.

In 2014 the FSA, with the support of the IFC, issued policy reforms to improve corporate governance after the 2008 economic crisis. (Saleem et al., 2017) The implementation of GCG is part of the policies considered by the government to realize transparency, justice, and accountability. (KNKG, 2021). The implementation of GCG not only aims to remind the company's performance but also improve management efficiency and competitive advantage. (S.M Yuen & Annie, 2018). The implementation of GCG is used to manage the company towards accountability to realize long-term share value, compete in global business and avoid economic crises.

An economic recession can lead to a decrease in all economic activities, such as people's purchasing power, which impacts consumption activity, so additional government spending and investment support are needed. MSMEs often consider GCG expensive or complicated without fully understanding the benefits that this discipline can provide.

Given the competitive climate, businesses must find innovative ways to reach new markets. This literature study aims to obtain a relevant theoretical foundation for solving GCG problems in MSMEs during the post-pandemic period, related to academic studies and other references.

Based on the discussion above, the researcher formulated the problem of this study, namely how the results of the implementation of corporate governance after the pandemic. This study aims to find solutions to the issues of implementing post-pandemic corporate governance in SMEs in terms of theoretical concepts relevant to the research.

LITERATURE REVIEW

According to (Sedarmayanti, 2012), efforts to empower corporations to increase the confidence of investors, the community, and all parties require support from the government as policymakers must make a policy process by considering GCG to achieve sustainable business, namely cultural values which are attached to the importance of MSMEs, such as honesty, justice, care, and so on. This will encourage people to feel obligated and simplify the GCG rules in treating shareholders and directors. The phenomenon is that profits increase but are not accompanied by good performance, so the profits generated are short-term and not carefully planned. (Sutedi, 2012).

The principles of GCG implementation contained in the National Committee for State Governance Policy (KNKG), namely (1) the state plays a role in regulating and supervising its instruments; (2) business actors play a role in the business market; and (3) the community as a business entity that produces products (Nugraheni & Martono, 2020).

MSMEs face fundamental and crucial problems in Indonesia in developing MSMEs in the future: capital/financing, technology and production, human resources, and market/marketing access, which have had an impact on the decline in export performance in the last ten years.

Therefore, the government needs to improve the governance of MSME empowerment in the future. Government Regulation 7 of 2021 concerns cooperatives and SMEs' convenience, protection, and license. This is an improvement in the governance of MSME empowerment, which the government will implement. In the 2022 Government Work Plan, the government has established integrated MSME management as one of the new Large Projects in 2022 to combine MSME policies that have a cross-sectoral or regional level.

From an institutional point of view, forming an integrated MSME management is the right choice because MSME problems ideally cannot be solved through various programs/activities spread across several ministries/institutions as they are today. In the future, the empowerment of MSMEs must be centered on one institution, especially considering the duties and functions of MSME empowerment, planning, coordination, monitoring, evaluation, and other technical activities. Therefore, the establishment of integrated MSME management must be carefully and comprehensively prepared, both from institutional, regulatory, and funding aspects.

Covid-19 affects the sustainability of MSMEs in terms of production, distribution, financing, and market demand. (Fetzer et al., 2021). (Fetzer et al., 2021). With these conditions, the government must issue policies aimed at resolving the slump of MSMEs during the pandemic through the National Economic Recovery Program, which provides incentive support, restructuring postponing interest on People's Business Loan installments for up to six months, the National Movement for Artificial Shopping Programs Indonesia, and innovation and adaptation of digital marketing.

RESEARCH METHODS

There are crucial problems faced in developing MSMEs in the future, such as financing, technology and production, human resources, and access to marketing, which have impacted the decline in export performance in the last ten years. (Moleong, 2018). Qualitative research discusses theoretical perspectives in building assumptions about the constantly changing truth, thus creating new theories (Kholifah & Suyadnya, 2018). This research begins with a search of literature with research topics, then screens or filters data ten years earlier, 2012-2022, to select research problems by subject. The final process is the conclusion of the study.

RESULTS AND DISCUSSION

The GCG system was first applied to large companies in America. Therefore, MSMEs in Indonesia need to follow international trends in the implementation of GCG to obtain comprehensive information about the performance constraints of GCG principles. Observations from the study results on the factors of failure of GCG implementation in MSMEs in Malaysia are caused by the weak legal system and internal control of the MSMEs concerned. From the identification results, MSMEs in Indonesia must start designing GCG tools that will be implemented.

Sustainability and Integration of GCG in MSMEs

The GCG principles applied to every aspect of the business and at all levels of the company are (1) Transparency: objective in running its business by providing relevant, accessible, and understandable information; (2) Accountability: work somewhat, measurably, and appropriately; (3) Responsibility: responsible for society and the environment; (4) Independence: it is managed independently and cannot be intervened by other parties; (5) Fairness: taking into account the interests of shareholders and other stakeholders. (KNKG, 2021).

The implementation of GCG in Indonesia has increased significantly, in line with the increase in value from 62.88 to 70.59. (Asian Development Bank, 2021). This development is due to the increasing number of issuers or Public Companies (PLCs) that have successfully entered the list of the top 50 ASEAN (There are several issues in the implementation of GCG in MSMEs related to topics such as (1) how to implement a standardized financial system to produce professional company management; (2) how the company's operations can be integrated with sophisticated information systems and managed by the company's management; (3) how to place efficient human resources and improve managerial knowledge.

The answer to the above problems will lead to the research objectives to create a management system that ultimately boils down to the formation of the concept of MSMEs, which are accountable, reliable and professional, and transparent in implementing GCG. The implementation of good governance in business at any scale is necessary within the framework of the concept of sustainability. (Krechovská & Procházková, 2014). Subsequently, the idea of sustainability became the basis for business development.

Why do D.O. MSMEs need to Implement G.C.?

The MSME sector is the backbone that can absorb labor and innovate to help increase productivity and diversify economic growth. Along with its development, not a few MSMEs experience various obstacles; it is believed that they do not apply GCG principles. And until now, no regulation officially regulates the implementation of GCG in MSMEs, such as trademarks, management models that are still primarily one-person shows or single fighters, have not separated assets and personal interests from business actors, most of the capital structure. Private capital still dominates him. (Yuliastutik, 2016). The functioning of government mechanisms is characterized by the increasingly effective performance of GCG indie actors in MSMEs. Several factors affect the GCG mechanism in the MSME sector, including (1) Government policies related to the procedural performance of a company so that MSME actors can implement GCG policies. (Elmagrhi et al., 2017); (2) the corporate climate describes the situation and atmosphere created during the company's activities. The higher the quality of the company's environment, the better the GCG mechanism (Kurniawati et al. 2015); (3) The workability of CGC HR is a GCG mechanism implemented by their respective functions. (Mailisa et al., 2016); (4) A form of business ownership (business legality) is a form of partnership or cooperation carried out by several people in running a business. The more legal a company is, the higher the quality of the GCG mechanism (Wardhana, 2018).

GCG Operationalization and Performance Measures

Research on corporate governance broadly has a controversial effect on the sustainability performance of MSME companies. (Wilkin et al., 2016). The relationship between GCG and leadership management in managing the company effectively will increase revenue through market management, allocate assets and capital, and improve shareholder compliance, ensuring that the value of stock assets increases. (Michelbelger, 2017).

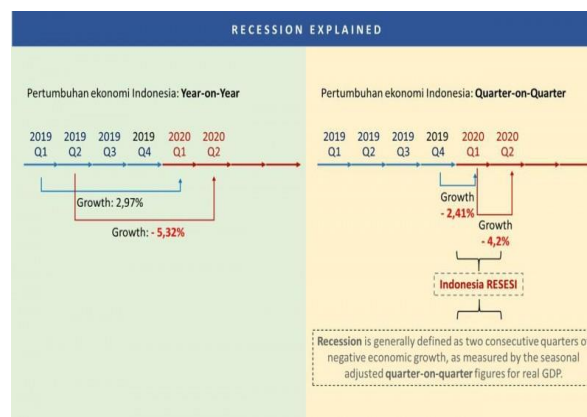
GCG elements significantly affect financial performance through ROA, ROE, and economic sustainability. (Oguz & Dincer, 2016). The importance of business management capabilities related to customer behavior can improve supply performance and is highly relevant in determining cash flow, increasing profitability, and lowering operating costs. (Forkmann et al., 2016). In addition, the support of employee dynamism contributes to the improvement of the performance and trust of top management through policies related to job security, training, and opportunities. (Yusuf Ekhayemhe & Oguzie, 2018); (Alzghoul et al., 2018). The GCG system impacts the banking sector, effectively increasing banks' reputation and market share. (Alqallaf & Alareeni, 2018); improving easier access to external financing (Claessens & Yurtoglu, 2012); and improving compliance and reducing manipulation of financial statements. (Buallay et al., 2017).

Economic Recession, What Should Governments Do?

The government has a vital role in improving the post-pandemic economy. The government initiated various policy packages and economic stimuli, such as the relaxation of some economic activities to increase state revenues, such as social security, late payment of loans and taxes, and state assistance. Productive assistance programs for MSMEs that have services,

not loans. This consequence arises from the pandemic-related world economic crisis, which triggered the participation of governments, societies, and financial institutions. (Sułkowski, 2020). Recessions are supposed to increase consumption and can only be corrected through stimulus. The recovery of the domestic economy will depend on the purchasing power of the people. This policy will address two issues at once. Take care of the poor simultaneously and increase economic demand so that the wheels of the economy can move again. BPS showed that Indonesia's economic growth in the third quarter decreased by -3.49 percent and -5.32 percent in the previous quarter. KNKG has issued several guidelines for improving corporate governance to monitor and evaluate the implementation of power of attorney in the performance of risk-based business licensing at the central and local government levels in encouraging the government's efforts to accelerate the national economic recovery.

Picture No. 1 - Recessary conditions in Indonesia



(Source: Central Bureau of Statistics, 2022)

It requires a commitment to implementing GCG on MSMEs from all parties to achieve goals effectively, efficiently, and economically in maintaining positive values, increasing the number of investors, creating short-term and long-term wealth, and reducing the risk of an insolvency economic crisis. Where the World Bank projects that the economy of Indonesia throughout 2020 will not grow or 0%. Meanwhile, the IMF projects that economic growth throughout 2020 will contract by 0.5%. This contraction caused the Indonesian economy to experience negative growth in three consecutive quarters. This shows that Indonesia is still caught in an economic crisis. From the financial side, data from the Ministry of Finance in 2021, the world economic recovery in the third quarter of 2021 generally experienced a slowdown due to the soaring daily cases of the Delta variant of Covid-19 in several countries. Economic growth in the third quarter of 2021 reached 3.51% (year on year/yoy), slowing down compared to the second quarter of 2021, which increased by 7.07%. Due to economic growth in the third quarter of 2021, growth slowed down due to an increase in daily cases in early January 2022, thereby reducing mobility and community activity.

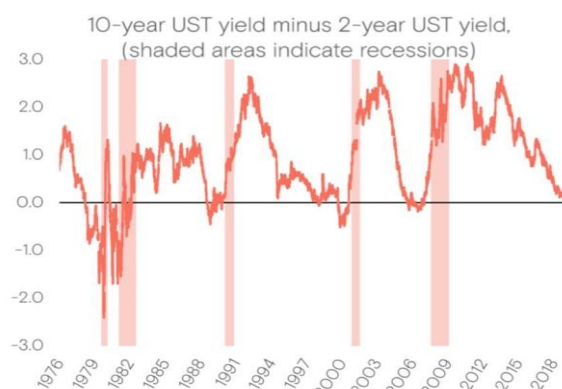
Furthermore, one other policy in the monetary sector, namely a reduction in lending rates, is expected to boost credit growth in the context of economic recovery. For this reason, domestic

economic stimulus through the National Economic Recovery (PEN) fund from 2021 to 2022 is still urgently needed, such as social assistance, direct cash assistance, assistance for MSMEs, and labor-intensive programs are the best, fast, and relatively easy stimulus steps for implementation in the field. According to OJK data, the banking sector has lowered the interest rate on productive loans since 2016 to below 10 percent. The interest rate on working capital loans fell from May 2016 from 11.74 percent to 9.27 percent in January 2021. The interest rate on investment loans in May 2016 of 11.42 percent declined to 8.83 percent in January 2021. Meanwhile, interest rates on consumer loans have fallen since May 2016 by 13.74 percent to 10.95 percent in January 2021. Meanwhile, during the pandemic, this is the main reason for the slowdown in lower lending rates in the banking industry amidst future economic uncertainty.

Indonesia has yet to enter a recession, let alone a depression, but signs show it is starting. The Indonesian economy increased by 5.05 percent (YoY) in the second quarter of 2019. This growth figure surprised many parties, including the government itself. In quarter I-2, activities to encourage national consumption became the cornerstone of economic growth in the second quarter, namely Eid al-Fitr and direct elections. However, the development is still not optimal. Therefore, a structured, systematic, and massive strategy is needed in the face of the threat of recession. Although at the level of the global economy, world economic growth is still positive, some neighboring countries have lost their jobs. According to German statistics, the annual development of the German economy in the second quarter of 2018 – II 2019 grew negatively by 0.4 percent, compared to the first quarter, which fell by 0.1 percent. One of the main factors is the decline in export performance.

In its report titled "Global Economic Risks and Implications for Indonesia," published in September 2019, the World Bank has identified several indications that could lead to a global recession. First, the symptoms of a recession caused by the U.S. government bond market. The history of recessions in the U.S. generally begins with a sign that the yield curve for 10-year bonds is smaller than for 2-year bonds.

Figure No.2 - Difference in 10- and 2-Year U.S. Government Bond Yields



Source: World Bank, 2019.

Second, the economic engine in the European Union region is showing a weakening trend. European economic growth slowed from 1.2 percent (Q1-2019) to 1.1 percent (Q2-2019). As a member of the G20, Turkey has not escaped the onslaught of economic recession. In two consecutive quarters, Turkey contracted economic growth from -2.4 percent (Q1-2019) to -1.5 percent (Q2-2019). Likewise, Germany, the overlord of the European economy, has been preparing for a more significant storm of recession. According to the Macroeconomic Policy Institute, the probability of Germany falling into the abyss of recession reaches almost 60 percent. Germany's manufacturing sector, which relies on export markets, has been affected by the US-China trade war and Brexit turmoil. As a result of Germany's weakening manufacturing sector, the 'engine country' economy continued to slump from 0.7 percent (Q1-2019) to 0.4 percent (Q2-2019). Third, China's industrial growth was only up 4.4 percent (YoY) as of August 2019, lower than July 2019 growth (4.8 percent). China's industrial output target is pegged at 6 percent. The decline in China's industrial output cannot be separated from the decrease of China's exports to the U.S. by 16 percent (YoY) as of August 2019. Under these conditions, China finds it increasingly difficult to maintain economic growth above the 6 percent level. The proof is that Indonesia's net export growth in the first semester of 2019 was negative 7.04 percent (YoY). This was also due to a decrease in the export commodity price index (year to date) by 3.4 percent as of September 2, 2019. From January to August 2019, Indonesia's non-oil and gas export growth to Europe decreased by 17 percent (YoY) or Rp 9.58 billion.

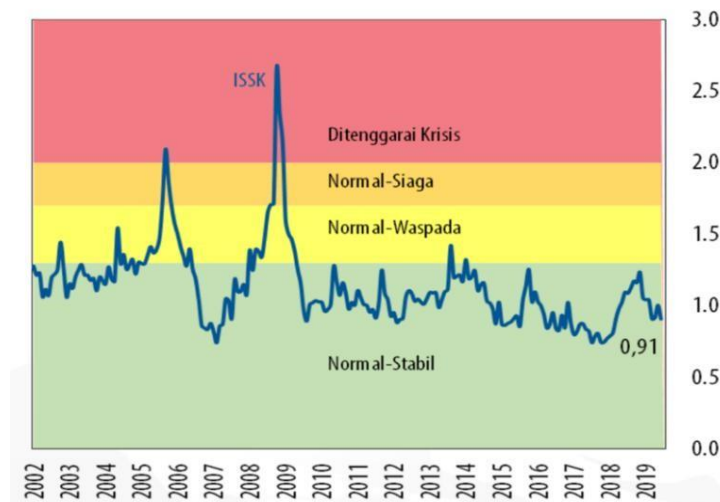
Figure No. 3 – China's Economic Growth



Source: Bloomberg, 2019.

In addition to fiscal, the domestic financial sector is also overshadowed by relatively controlled risks. This is reflected in the Financial System Stability Index (ISSK), which is still in the standard and stable zone, supported by sound financial market conditions and banking capital. The evidence is that the banking industry's capital adequacy ratio (CAR) was maintained at 23.19 percent as of July 2019. Liquidity in the banking industry is also supported by an indicator of the percentage of liquid assets to third-party funds (AL/DPK) of 19.1 percent as of June 2019.

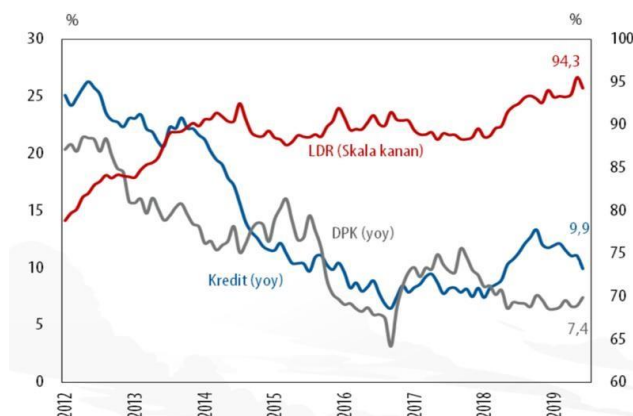
Figure No. 4 – Financial System Stability Index (ISSK)



Source: Bank Indonesia, 2019

However, some banking indicators that need to be observed include the growth of Third Party Funds (DPK), which has continued to decline since the end of 2018 to only grow 7.4 percent (YoY) as of June 2019. On the other hand, efforts to stimulate economic growth certainly require the support of bank loans, which also experienced a slowdown from 11.1 percent (YoY) in May 2019 to 9.9 percent (YoY) in June 2019. Pressure on deposit growth, in turn, contributed to an increase in the loan-to-deposit ratio (LDR), which briefly touched 96.19 percent in May 2019, although it decreased again to 94.48 percent as of July 2019.

Figure No. 5 – Development of Deposits, Loans, and RDR



Source: Bank Indonesia, 2019

Credit growth is still growing at 9.9 percent (YoY) as of June 2019. However, several sectors experienced lower credit growth, including the trade sector (7.4 percent), industry (6.9 percent), transportation, and telecommunications. (8.5 percent), agriculture (8.6 percent), and household

consumption (7.6 percent). The three sectors (trade, industry, and household consumption) account for up to 64 percent of total credit, so the credit performance of these three sectors is disrupted. Another risk indicator is the ratio of non-performing loans/NPL). In general, the NPL value of domestic banks was maintained at 2.5 percent. However, sectoral, several sectors have a reasonably high NPL value, including the trade sector (3.94 percent), construction (3.67 percent), and mining (3.58 percent). These three sectors contributed 44.7 percent to total credit.

Deteriorating investment and export performance has affected banking performance. When the real sector cannot increase its profits, a decrease in bank deposits is inevitable; weakening global and domestic demand also affects business expansion, so the need for bank credit will automatically decrease. Bank Indonesia's policy to lower the benchmark interest rate and stimulate adequate liquidity in the market are the main instruments to stimulate economic growth. In addition, the decline in the Loan to Value (LTV) or Financing to Value (FTV) ratio issued by B.I. is also fresh air in driving actual sector demand. With this support, it is expected that the real sector will not only be able to withstand the risk of an economic slowdown. However, this can also create expansive momentum to improve Indonesia's export performance and trade balance.

CONCLUSION

The implementation of GCG is increasingly becoming a strategic determinant for MSMEs to create success in a complex policy and regulatory environment, which reflects the company's sustainability capabilities, avoids business setbacks or bankruptcies, and involves the consideration of all parties in managing MSMEs. Adopting good corporate governance practices in a simplified form will improve the company's performance. In addition, this study found unclear but significant business market challenges in measuring a company's financial performance. This encourages MSMEs to consider GCG practices to facilitate access to financial markets in the face of economic shocks. With these conditions, the government anticipates various policies or stimuli that will actively encourage economic growth by increasing competitive productivity.

The public can donate by buying MSME products, innovating, or improving the development of information digitization systems for startups. This study concludes the government's policy to facilitate MSMEs in implementing corporate governance. First, the government empowers local raw material supply chains to avoid large-scale contractions in demand. Second, the government provides low-interest rate stimulus, deferred taxes, and offers loan facilities. Third, the government provides social assistance and training schemes for laid-off employees. Fourth, the government facilitates the development of digital marketing to increase sales turnover amid social restriction policies.

Implementing GCG can eliminate practices that are detrimental to the company and consumers. Therefore, the implementation of GCG provides benefits for MSMEs. 1) Increasing the market value of stocks with investor confidence; 2) Building broader business relationships; 3) Suppliers will provide the best price and create efficiency for the company; 4) Provide trust to creditors to channel credit for business expansion. The importance of government's role in

formulating MSME corporate governance compliance standards will create a competitive advantage and long-term growth through support for training (workshops) and conferences for MSMEs. The existence of rules that clarify the system of implementing corporate governance provides a perspective for investors in making decisions and disclosing relevant materials to maximize profits. GCG mechanisms are dynamic and may change from time to time. A more in-depth analysis is needed to get more representative input and sample sizes for implementing GCG in MSMEs.

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