

# The Implementation of Corporate Governance and Risk Management in a Small- Package Delivery Service Company: The Case Study of PT.XYZ

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## The Implementation of Corporate Governance and Risk Management in a Small-Package Delivery Service Company: The Case Study of PT.XYZ

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### Abstract

*This paper examines the implementation of corporate governance (CG) and risk management (RM) in a small-package delivery service (SPDS) company in Indonesia, namely PT.XYZ Express, an Indonesian private company owned by several Indonesian shareholders. The principles of corporate governance (CG) have been introduced and implemented in the company, however some challenges occur during the implementation and elaborated in this study. Qualitative research method is used in this study with observations and documents collected from external and internal of the company. The purpose of this study is (1) to provide an overview of the current implementation of the principles of corporate governance and risk management, (2) to provide risk assessments on the failures related to corporate governance, (3) to provide recommendations for future implementation.*

### Keywords

corporate governance (CG); qualitative research method; small-package delivery service (SPDS); risk management



### I. Introduction

<sup>3</sup>In Indonesia, the financial crisis of 1997-1998 sparked dramatic social, economic, and political effects. That event caused the Indonesian rupiah to depreciate by almost 80 percent, dramatically increasing poverty. As Furman and Stiglitz note, "The depth of the collapse in Indonesia is among the largest peacetime contractions since at least 1960 (excluding the experience of the transition economies of eastern Europe and the former Soviet Union). Many experts consider Indonesia's recession to have been fueled by an extremely poor supervision of the financial sector and lax enforcement of central bank regulations, which compounded irregular banking practices.

After the 2008 economic crisis, Indonesia has taken steps toward improving corporate governance. The desire to establish a strong corporate governance environment in the country has included several reforms such as the issuance of the Indonesian Corporate Governance Roadmap, launched in 2014 by the Indonesia Financial Services Authority (OJK) with the support of the World Bank's International Finance Corporation.

Although there is still great need for improvement, the Indonesian business community's awareness and understanding of the importance of corporate governance has improved dramatically since then. This change corresponds with ongoing advances made to the legal and regulatory corporate governance framework. (IFC International Finance Corporation, World Bank Group, 2018)

Good practice of corporate governance implementation does not only well monitor and alert the company performance (i.e. profit warning), but also enhance business & management efficiency and competitive advantages. (Yuen & Ko, 2018)

The object of this study is PT.XYZ, a national small-package delivery services company where the company's operational activities cover all areas of Indonesia with more than 50 main branches, hundreds of sub-agents and thousands of point of sales across the country supporting the company's day-to-day transportation and delivery of packages.

Human Resources (HR) is the most important component in a company or organization to run the business it does (Niati et al., 2021). The company's values of honesty, disciplined, responsibility and visionary, become the basic foundation of the corporate to implement its strategy and the management of its human resources.

In this study, the findings of internal and operational audit which related to good corporate governance principles, transparency, accountability, responsibility, independence, fairness, are elaborated and analyzed. Risk identification, analysis and evaluation are also elaborated in relation to the corporate governance principles, to see the risk exposures and mitigations to allow the organization perform better.

## II. Review of Literature

### 2.1 Corporate Governance Principles

Indonesia established the National Committee on Corporate Governance in 1999 (Komite Nasional Kebijakan Governance/KNKG), supervised by the Coordinating Ministry for Economic Affairs. KNKG published a national code of corporate governance in 2000, which was amended in 2001 and 2006. It builds upon OECD corporate governance best practices, although not legally binding, has become a reference for all companies in Indonesia, both private companies and State-Owned Enterprises (SOEs).

Based on General Guideline of Corporate Governance in Indonesia, released by KNKG in December 2021, corporate governance is a structure and process used to lead and manage business in order for the business to thrive and being accountable, with the final objective is to create the value of the company and sustainability of shareholders' wealth by taking into account the interests of stakeholders. (Komite Nasional Kebijakan Governansi, 2021)

Basically, corporate governance covers the relationship among corporate's stakeholders and how to balance their interests. The main stakeholders in corporate governance are shareholders, directors, commissioners, and other stakeholders are employees, vendor, customer, bank and other creditor, regulator and public. (Komite Nasional Kebijakan Governansi, 2021)

Based on General Guideline of Indonesia Good Corporate Governance, year 2006, the principles of good corporate governance in Indonesia are based on five basic principles, transparency, accountability, responsibility, independency and fairness. (Komite Nasional Kebijakan Governance, 2006)

It is said that every company must ensure that the principles of Good Corporate Governance (GCG) to be implemented in all aspects of business and at all levels of company's organization structure. The principles of GCG are needed to achieve the company's sustainability by taking into account the interests of stakeholders.

The followings are the basic principles of good corporate governance: (Komite Nasional Kebijakan Governance, 2006)

**Transparency** – In order to maintain the objectivity of running a business, the company has to make sure the availability of information as well as being relevant, which is easily accessed and understood by stakeholders. The company has to be proactive to disclose not only issues required by laws but also it is as important as of decision-making process by shareholders, creditors and other stakeholders.

**Accountability** – A company has to be able to take responsibility on its performance transparently and fairly. Thus, the company must be managed correctly, being measurable, and in accordance with the company’s interests, by taking into account the interests of shareholders and other stakeholders. Accountability is the pre-requisite needed to achieve the company’s sustainable performance.

**Responsibility** – A company has to comply with laws and to carry out its responsibility to public and environment so that the company’s sustainability can be maintained in the long run and the company gets acknowledgment as a good corporate citizen.

**Independency** – A company has to be managed independently so that the each of company’s function is not dominating one to another and not intervened by others.

**Fairness** – In conducting its activities, a company has to always take into account the interests of shareholders and other stakeholders based on the principles of fairness and equality.

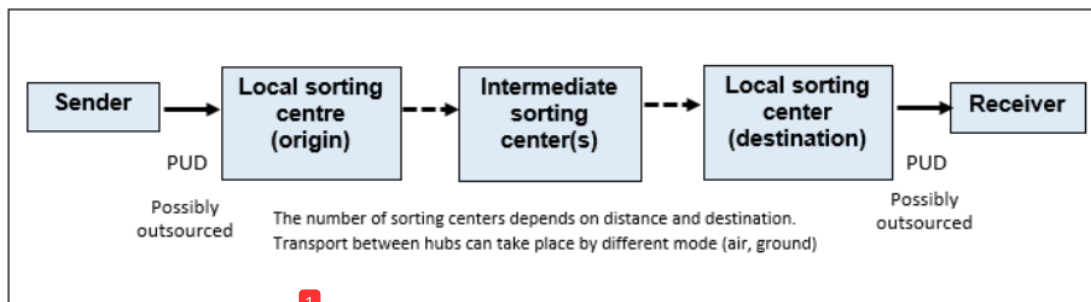
## 2.2 Small-Package Delivery Services <sup>1</sup>

The Small-Package Delivery Service (SPDS) industry is made up of companies that transport small packages from one location to another. An important feature of this market is that packages are picked up at an origin and delivered to destination. Also known as pick-up and delivery (PUD), this involves vehicles transporting small packages from senders to consignees, through local centers and final-stage sorting facilities.

Another important feature of the industry is the ability to track a shipment at every step of the delivery process. A package moving from sender to consignee will pass through a varying number of “nodes” before reaching its final destination. Small-package delivery is inherently multimodal, using small trucks, cars or messengers for pickup and delivery and other modes of transport such as truck, rail or air for longer distances.

Many SPDS operators, both in Europe and ASEAN member states, offer additional services as a way of diversification, including warehousing and value-added services, such as quality-control service, packaging and labelling. <sup>1</sup>

Figure 1 shows an overview of steps in a small-package delivery service (Source: OECD analysis based on EC merger case COMP/M.6570 – UPS/ TNT Express, 30/1/2013 and (Dennis, 2011). (OECD, 2021)



**Figure 1.** Overview of steps in a small-package delivery service <sup>1</sup>

<sup>2</sup> Different actors are active in the SPDS value chain, they are roughly split between integrators and non-integrators. An integrator has operational control over the SPDS logistical chain from origin to destination (including air transport), so that it can ensure

delivery to meet a time commitment. The main global integrators are FedEx/TNT, DHL and UPS.

There are several types of non-integrators active in the SPDS value chain.

- a. **Incumbent postal operators.** In many countries, the incumbent domestic postal operator is active in domestic and international small-package delivery. Generally, declining mail volumes have forced these operators to develop new business areas such as logistics, and in particular, SPDS.
- b. **Regional, national or local SPDS companies and partner networks.** These are often concentrated in the domestic small-package market. They may form alliances and partner networks to offer wider-ranging SPDS and expand into neighboring countries.
- c. **Smaller companies** with a domestic PUD ground service in one or more countries.

Many SPDS operators, both in Europe and ASEAN member states, offer additional services as a way of diversification, including warehousing and value-added services, such as quality-control service, packaging, labelling. (OECD, 2021)

### 2.3 Risk Management

The implementation of corporate governance is one form of actions in a company's risk management. Corporate governance is a component of enterprise risk management (ERM). Risk management is the objective of corporate governance of a company. (Manurung, 2020)

Corporate governance and enterprise risk management have main interest in the area of company strategic direction, company's integration and the motivation of the company's top management. The creation of audit committee, remuneration committee, risk committee, will help the company's top management in making the company's policies. (Manurung, 2020)

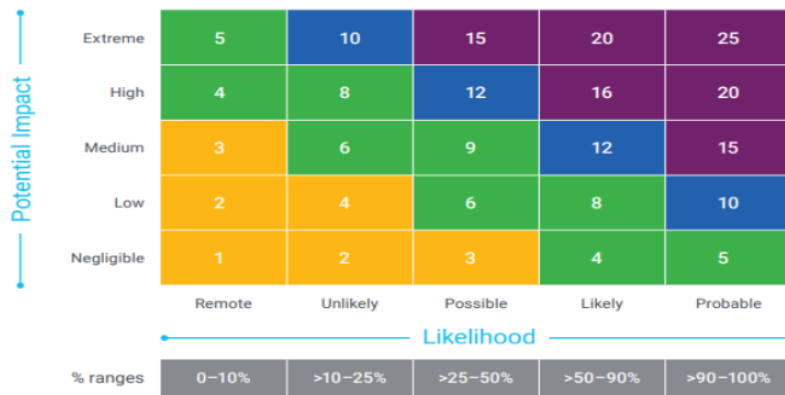
Risk-taking is a fundamental driving force in business and entrepreneurship, the cost of risk management failures is still often underestimated, both externally and internally, including the cost in terms of management time needed to rectify the situation. Corporate governance should therefore ensure that risks are understood, managed, and, when appropriate, communicated. (OECD, 2014)

Based on ISO31000:2018, risk is effect of uncertainty on objectives. Risk management is coordinated activities to direct and control an organization with regard to risk. Risk assessment is the overall process of risk identification, risk analysis and risk evaluation. (ISO31000, 2018)

This study will use quantitative and qualitative risk heat map for the purposes of analysis and risk assessment. (Sexton & Vetter, 2021)

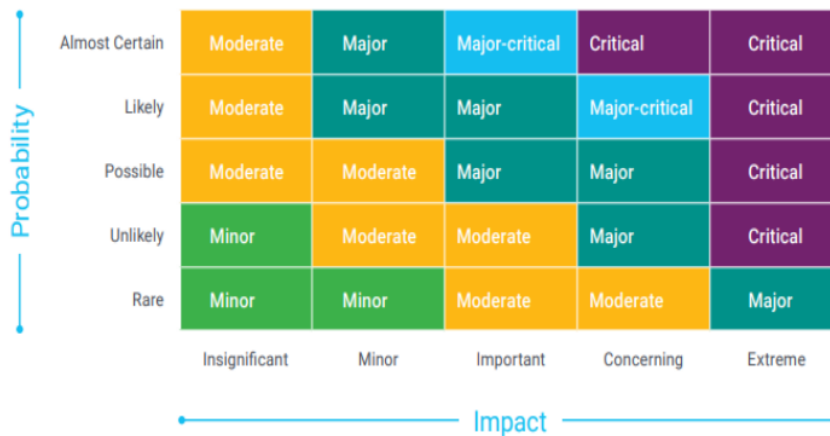


### Quantitative risk heat map



Source: Risk assessment for mid-sized companies: tools for developing a tailored approach to risk management. Scott McKay, AICPA, 2011

### Qualitative risk heat map



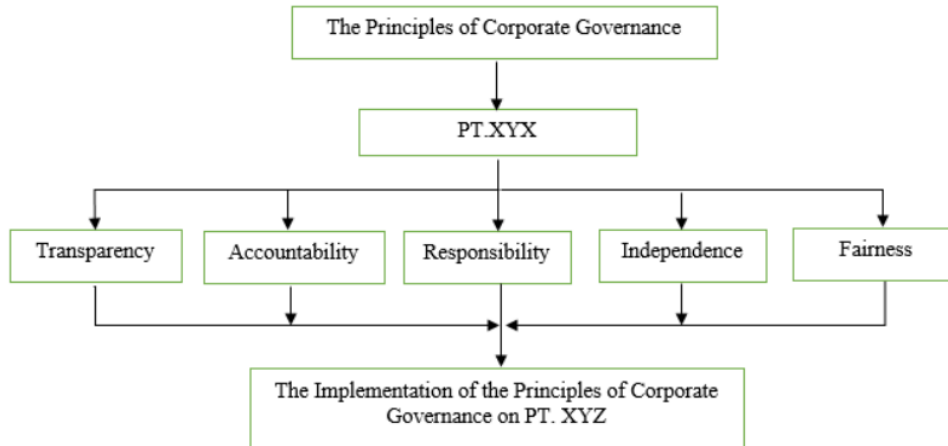
### III. Research Method

Methodology used in this study is qualitative research (Sugiyono, 2016) with several characteristics:

- It has the natural setting as the direct source of data and researcher is the key instrument.
- It is descriptive, the data collected is in the form of words or pictures rather than number.
- It is concerned with process rather than simply with outcomes or products,
- Intensive, long term participation in field setting
- Careful recording of what happens in the setting by writing field notes and interview notes by collecting other kinds of documentary evidence,
- Reporting the result by means of detailed descriptions, direct quotes from interview, and interpretative commentary.

Data used in this study is collected from internal of the company from year 2019 and year 2020 which are related to good corporate governance principles.

The following figure 2 is the research framework:



*Figure 2. Research Framework*

#### IV. Results and Discussion

PT.XYZ Express is a private company owned by several local shareholders. The head office is in Jakarta with branch offices covering all provinces (Provinsi) and districts (Kabupaten) across Indonesia. The organization structure consists of board of commissioners, board of directors, vice presidents who are in charge of directorate of operations, accounting and finance, sales and business development, marketing, quality assurance, and directorate of internal audit and risk management. The company's vision, mission and values are socialized across its branch offices across the country.

The company has been implementing the principles of corporate governance (CG) for more than 10 years, and the principles of CG were incorporated into the company.

PT.XYZ day-to-day operations is to transport and deliver documents and packages to all destinations across Indonesia. In order to do that, the company works with third-party entities which spread out across the country in the forms of point of sales (POS), branch offices in provinces, and sub-agents in district areas. However, only half of provincial branch offices are directly owned by PT.XYZ, the rests are owned by third-party owners.

##### 4.1 Transparency

Implementation guideline of transparency principle, as per general guideline of good corporate governance in Indonesia, says that a company has to provide its information timely, adequate, clear and accurate, and easily accessed by the stakeholders as per its right. (Komite Nasional Kebijakan Governance, 2006)

PT.XYZ Express' vision, mission and values are available at its website and socialized across its branches. The company's strategy is explained during yearly leaders meeting at the end of year, in which the strategy will be implemented in the following year. The financial achievement is elaborated during that yearly leaders meeting.

On the other hand, the shareholders' meeting is conducted at first quarter of year where commissioners and directors are reviewing the company's performance.

The information of risk management and internal audit findings are reported to audit committee on regular basis to ensure potential risks are mitigated, managed and controlled.

PT.XYZ, on regular basis, is to send out its new policies, or the change of current policies through the use of internal memo. For some complex internal memos, the company exercises webinars, zoom online meetings, to enable question and answer (Q&A) sessions, so that the policy is clear and accurately understood.

In terms of financial information, PT.XYZ Express and its business partners are all private companies, thus, financial details exposed to external and internal are limited.

#### 4.2 Accountability

ISO 9001:2015 quality management system has been implemented in PT.XYZ Express since 15 years ago, the quality management system has been implemented in its head office and in the process of expanding the certification nationwide.

Job descriptions and everyone's accountabilities are elaborated in line with their organization structures and employee's performance appraisals are conducted every year.

Integrity pact was also released to strengthen the implementation of good corporate governance in which management and employees are instructed to sign the pact and comply with business ethics and code of conducts.

#### 4.3 Responsibility

PT.XYZ Express complies with existing and related laws and regulations where the company has been operating in. The company joined the association of courier companies in Indonesia the so-called Asperindo. This is to ensure that the company fully comply with the industry-related laws. The division of legal has been established together with the division of quality assurance to ensure that the company is always in line with government's rules and regulations.

The company's responsibility to society and environment is channeled through its integrated program of corporate social responsibility (CSR). The programs support all walks of life such as in the area of empowerment of women, supporting orphanages, supporting small medium businesses, and others.

In terms of environment, the company has been working with companies producing electric motorcycles and has been using EV motorcycles to reduce pollutions in main cities.

#### 4.4 Independence

The implementation of the principle of independence in PT.XYZ Express is still challenging considering the company is still private. The domination of one company's organ to another must be avoided to ensure that the principle of independence is implemented.

Business ethics has been socialized to ensure that conflict of interests are not happening. However, as private companies, both at its head office and at its business partners day-to-day operations, the challenging is still there.

#### 4.5 Fairness

With several shareholders owning the shares of PT.XYZ Express, equal treatment to all shareholders is expected to be maintained, regardless for whatever shareholdings they hold. The company opens up free access to all stakeholders so that they are able to provide feedbacks for the benefits of the company as a whole.



PT.XYZ recruitment process has been open, and everyone has the same opportunity regardless his/her ethnicity, religion, race, gender and physical condition.

#### 4.6 Risk Management

PT.XYZ has been implementing risk management for more than 10 years. The implementation of enterprise risk management (ERM) has been introduced for the past several years. However, with its current business model, in which the company is working with business partners across the country, the implementation of risk management is very challenging.

The followings are several risk assessments which become highlights on this study:

##### a. Risk Assessment on Accountability and Independency in Relation to Vendor Management

Risk assessment on Vendor Management is elaborated in Table 1. Figure 3. and Figure 4. below:

**Table 1.** Risk Assessment on Vendor Management

<b>The unexpected event</b>		<b>Score</b>	<b>Status</b>
Vendor's Poor Quality Product and High Price			
<b>Cause</b> Poor Business Process of Procurement			
<b>Likelihood</b> Likely (level 4)	<b>Impact</b> High (level 4) – Major Critical Financial loss Poor Service to customers Dissatisfied customer Poor systems	<b>16</b>	<b>Critical</b>
<b>Mitigation Likelihood</b> Review of Business Process of Procurement Regular internal audit to improve process Regular programs for employees on Company's values Level 2	<b>Mitigation Impact</b> Renegotiate with vendor Speedy resolve to customer if failure impacts to customer Set-up plan B for contingency Level 2	<b>4</b>	<b>Moderate</b>



Figure 3. Quantitative Risk Heat Map on Vendor Management



Figure 4. Qualitative Risk Heat Map on Vendor Management

**b. Risk Assessment on Accountability in Relation to Customer Claims – Missing Shipment**

The customer claims of missing consignment is basically a problem faced by operations of all companies of small package delivery services.

As it can be seen on Table 2 **Overview of steps in a small-package delivery service**, the movement and handover of a consignment from one person to another person, from a work-area to another work-area, from one mode of transportation to another mode of transportation are happening during a lifecycle of consignment. Starting from a pick-up at sender’s premise up to the final destination to end receiver, the transit time can take hours up to several days.

Failure to implement a disciplined process as per standard procedure will result in a consignment going missing. The failures in operational process and the issue of integrity of employee contribute to a claim.

Table 2 is the total missing consignments occurred during year 2019 and year 2020. As the result of the claims, PT.XYZ Express has to pay compensations to customers, including the ones not insured.

**Table 2.** Customers' Claims due to Missing - Year 2019 - 2020 (in consignments)\*

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
<b>2019</b>	927	1,237	1,302	1,180	1,127	1,050	1,120	1,472	2,113	1,513	1,387	1,182
<b>2020</b>	1,389	1,088	824	630	687	740	567	1,472	1,216	624	865	732

- \* Customers' claims are from retail and corporate customers only, excluding marketplace customers.
- \* Reasons of missing: during inbound process (un-inbound); during delivery (consignee unknown); during return process

Risk assessment of missing shipment is elaborated in Table 3, Figure 5 and Figure 6 below:

**Table 3.** Risk Assessment on Missing Shipment

The unexpected event		Score	Status
Missing Shipment			
<b>Cause</b> Operational failure			
<b>Likelihood</b> Likely (level 4)	<b>Impact</b> High (level 4) – Major Critical Financial loss Reputational damage Dissatisfied customer	<b>16</b>	<b>Major - Critical</b>
<b>Mitigation Likelihood</b> Discipline in SOP implementation Review of Job Description for Accountability purpose. Reward and Punishment Programs on Company's Values Invest in warehouse and vehicle infrastructure Level 2	<b>Mitigation Impact</b> Insurance must be used for high value goods, Speedy resolve to customer, to avoid customer brings a case to court Level 2	<b>4</b>	<b>Moderate</b>



**Figure 5.** Quantitative Risk Heat Map on Missing Shipment



**Figure 6. Qualitative Risk Heat Map on Missing Shipment**

**c. The Assessment of Accountability and Fairness in Relation to Failure to Act on Audit Findings – Punishment**

**Table 4. Risk Assessment on Failure to Act on Audit Findings**

<b>The unexpected event</b> Audit Findings not followed up and punishment not given. (Failure to act on audit findings)		<b>Score</b>	<b>Status</b>
<b>Cause</b> Intervention from higher level of hierarchy			
<b>Likelihood</b> Likely (level 5)	<b>Impact</b> High (level 4) – Critical Financial loss Low morale of staff Create a bad precedence	<b>20</b>	<b>Critical</b>
<b>Mitigation Likelihood</b> Warning Letters if audit findings not followed up timely The use of system to monitor the progress Level 2	<b>Mitigation Impact</b> Recover the financial loss from the fraudulent employee Level 2	<b>4</b>	<b>Moderate</b>



Figure 7. Quantitative Risk Heat Map on Failure to Act on Audit Findings



Figure 8. Qualitative Risk Heat Map on Failure to Act on Audit Findings

### V. Conclusion

PT.XYZ Express has been implementing <sup>5</sup> the principles of good corporate governance, transparency, accountability, responsibility, independency and fairness for the past years, even though with some limitations during its operational implementation. The management is aware of GCG implementation benefits, and socialization of GCG principles have been conducted nationwide.

With the company's vast network across the country, both owned-offices and third party-owned offices, a consistent GCG's implementation program needs to be mapped out and rolled out faster. The blueprint is suggested to be made comprehensively, with clear timeline of implementation. The benefits of GCG such as building morale, reputation and legacy; effective framework to meet business objectives, create more opportunities to have a competitive advantage; create opportunities for investment; provide a practical way to guide decision-making at all levels, will finally benefit all stakeholders of PT.XYZ Express.



GCG's principles need to be implemented consistently in PT.XYZ Express. Supporting functions such as internal audit and risk management must support the top management during decision making process in order to provide benefits for all stakeholders.

Regular internal audit, service audit, risk-based audit and risk management programs which support the implementation of good corporate governance will finally improve the performance of the company as a whole.

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