FAILURE OF CORPORATE GOVERNANCE - A CASE STUDY AT PT GARUDA INDONESIA TBK

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ABSTRACT

The topic of corporate governance became the focus of research, discussions, seminars and recent regulatory reforms following a wave of failures in implementing the governance of multinational companies in various countries. In Indonesia, PT Garuda Indonesia Tbk is a public company that has failed in implementing a good corporate governance system. The purpose of this study is to investigate the factors causing the failure of corporate governance. The research method uses a single case study. The research subject was PT Garuda Indonesia Tbk during the period 2018-2019. The results showed that the failure of the implementation of the corporate governance system at PT Garuda Indonesia Tbk was caused by the crisis of ethical leadership in almost all the highest ranks of the company. This study reinforces the findings of the latest researchers who revealed the absence of ethical leadership as a cause of failure in implementing corporate governance in various companies and emphasized the important role of ethical leadership in a business entity or organization.

Keywords*: ethical leadership, corporate governance, case studies*

ABSTRAK

Topik tata kelola perusahaan menjadi fokus penelitian, diskusi, seminar dan reformasi regulasi terkini menyusul gelombang kegagalan dalam penerapan tata kelola perusahaan multinasional di berbagai negara. Di Indonesia, PT Garuda Indonesia Tbk merupakan perusahaan terbuka yang gagal menerapkan sistem tata kelola perusahaan yang baik. Tujuan dari penelitian ini adalah untuk mengetahui faktor-faktor penyebab kegagalan tata kelola perusahaan. Metode penelitian menggunakan studi kasus tunggal. Subjek penelitian adalah PT Garuda Indonesia Tbk selama periode 2018-2019. Hasil penelitian menunjukkan bahwa kegagalan penerapan sistem tata kelola perusahaan di PT Garuda Indonesia Tbk disebabkan oleh krisis kepemimpinan etis di hampir semua jajaran tertinggi perusahaan. Penelitian ini memperkuat temuan peneliti terbaru yang mengungkapkan tidak adanya kepemimpinan etis sebagai penyebab kegagalan dalam penerapan tata kelola perusahaan di berbagai perusahaan dan menekankan pentingnya peran kepemimpinan etis dalam suatu badan usaha atau organisasi.

Kata kunci : kepemimpinan etis, tata kelola perusahaan, studi kasus

INTRODUCTION

Corporate governance has reappeared as the most significant business discussion topic at the beginning of the 21st century. This topic has become the focus of research, discussion, seminars, and regulatory reform, following a wave of corporate bankruptcy / bankruptcy which successively hit multinational companies in various countries (Banks, 2004: 20; Albdour, 2017: 1; Agbim, 2018 : 20). Some examples of failed corporate governance include: Enron, Tyco, Andersen, and WorldCom (United States), Swissair (Switzerland), Kirch Media (Germany), Daiwa Bank, Sumitomo Corporation (Japan), Asea Brown Boveri (Sweden / Switzerland), Ahold, World Online (Dutch), AstraZeneca (English / Swedish), Akai, Bank of China (China), Daiwoo (Korea), Lernout and Hauspie (Belgium), Vivendi Universal (France) (Banks, 2004: 4- 8). The Asian financial crisis, including what happened to Indonesia in 1998-1999, was partly caused by weaknesses in corporate governance and banking institutions in Indonesia (OJK, 2014a: 1;).

Learning from the economic crisis that struck Indonesia in 1997-1998, the Indonesian government through the Ministry of State-Owned Enterprises (2012) issued a Regulation of the State Minister for State-Owned Enterprises Number: Per-09 / MBU / 2012 concerning SOE governance guidelines. Bank Indonesia (2006) also did not miss to issue Bank Indonesia Regulation Number 8/4 / PBI / 2006 concerning guidelines for implementing governance of commercial banks, and the Financial Services Authority (2014b) issued corporate governance guidelines for public companies listed on the Exchange Indonesian effect.

Although various regulations, regulations and governance guidelines have been issued by the government, regulators and various related organizations / institutions, in fact there are still many corporate scandals in various countries. The failure of Lehman Brothers and the violation of Ernst & Young's public accountant ethics in 2008, and the manipulation scheme carried out by JPMorgan Chase in early 2015 occurred precisely after the promulgation of "the SARBOX" in the United States (Rampersad, 2015: 1). Another example in Indonesia is the case of PT Garuda Indonesia, which is a State-Owned Enterprise as well as a listed company listed on the IDX, hit by several cases that violate business ethics and good corporate governance, even though there have been corporate governance rules that have been issued by Ministry of BUMN, and Financial Services Authority. The question now is why is this still happening?

PT Garuda Indonesia Tbk, which carries the name of the symbol of the Republic of Indonesia, is an airline operator in the form of BUMN because most of its shares are owned by the Republic of Indonesia, but at the same time as a public company because a small portion of its shares have been sold to the public through the IDX. Therefore naturally this company is subject to the rules of corporate governance, both those issued by the Ministry of SOEs and the Financial Services Authority (OJK). Judging from its history, PT Garuda Indonesia Tbk has been hit several times by various problems, and was also affected by the Indonesian economic crisis in 1997-1998, but slowly the company's management was able to prevent the company from going bankrupt. In 2010, company management could even deliver the company to become one of the top 10 of the world's best airlines (Aron, 2017).

With its already very good reputation, the community was suddenly shocked again by several adjacent cases that tarnished the company's image, including alleged corruption by former President Director of PT Garuda

Indonesia Tbk, publishing false financial statements for the 2018 business year, and smuggling of Harley Davidson motorcycles which allegedly involved the directors of the company in 2019. Therefore, the formulation of the problem in this study was: "Why does the implementation of corporate governance of PT Garuda Indonesia Tbk not run as expected, even though the GCG index of PT Garuda Indonesia Tbk has reached a score of 93,850 from the score a maximum of 100 or 93,850%, with the title "Very Good.".

LITERATURE REVIEW

Agency theory is considered as one of the oldest theories in management and economic literature (Panda & Leepsa, 2017: 76). Agency theory describes the agency relationship that occurs when one or more people (principals) employ another person (agent) to provide a service and then the principal delegates decision-making authority to the agent concerned (Jensen & Meckling, 1976: 4). In agency theory / relationships, agents are expected to act fully in their principal interest, but in practice, it often happens where the agent's decisions and actions are intended to fulfill his personal interests rather than his principal interests. Differences or conflicts of interest between agents and principals are often referred to as agency problems. Bendickson et al (2016: 4) revealed that the main issue in agency relationships is the emergence of agency problems. Agency problems can arise because of asymmetric information - a situation where there is an imbalance in the mastery of information between an agent and his principal. Agents, of course, master more information than the information held by their principals. These circumstances are often manipulated by agents by providing incomplete, incorrect, or misleading information to their principals. The problem of agency and asymmetric information, finally raises a challenge, how to implement an effective governance system to overcome agency problems, narrow the asymmetric information gap, and align the interests of agents with their principals.

Stakeholder theory emphasizes that outside of shareholders there are several principals (stakeholders) who are interested in the company's actions and decisions. Stakeholders are individuals or groups who are harmed by or benefit from the corporation; or whose rights have been violated or must be respected by the company (Nikolova1, & Arsić, 2017: 31). Freeman and Reed (1983: 91) describe two definitions of stakeholders - in the broad sense and in the narrow sense. In the broadest sense is any group or individual that can influence the achievement of the goals of an organization or that are influenced by the achievement of the goals of an organization (eg public interest groups, opposing groups, government agencies, trade associations, competitors, unions), employees, customers, shareholders, and other stakeholders). In the narrow sense, that is, every group or individual to whom the organization depends on it in a sustainable way (employees, customers, certain suppliers, key government agencies, shareholders, certain financial institutions, and others). The logic behind stakeholder theory depends on the assumptions that describe the relationship between the organization and its environment; this assumption is that the organization has relationships with various stakeholders; the company is run by top managers who make strategic decisions that affect stakeholders; competing interests between the organization and stakeholders can cause conflict; and competitive organizations in markets that tend to lead to balance (Hult et al (Benn, Abratt & Leary, 2016: 3).

Ethical leadership attracts great interest from researchers, and as such has been widely studied. The increased attention and interest in the development of ethical leadership is debated because of the high profile scandal that has plagued various corporations recently (Ahmad, Hali, Gao, 2017: 11). The classic approach for most organizations trying to be more ethical and responsible is not to focus on leadership, but on the application of processes (corporate governance, corporate social responsibility), however, the emphasis on this process often has little effect, because the leaders involved are not right adopting an ethical attitude (Bachmann, 2015: 12). As a relatively new construct, it must first be understood what is meant by ethical leadership. Ethical leadership is formed by a combination of two words, ethics and leadership. Ethics refers to principles that are accepted right or wrong that govern a person's behavior, while leadership is a process by which a person influences others, and inspires, motivates, and directs their activities to help achieve the goals of a group or organization (Agbim, 2018: 22-23). Yozgat and Meşekıran, (2016: 126) adopted a much broader perspective on the definition of leadership: "leadership is the process of interaction between leaders and followers in which leaders try to influence followers to achieve common goals".

Corporate governance deals with issues of conflict of interest arising from the separation of ownership and management so that control is needed (Awan & Akhtar, 2014: 55). From this perspective, the issue of corporate governance will focus on how to resolve conflicts of interest by examining three aspects: structure, mechanism, and principles of governance. The first aspect, related to governance structures, traditionally, there are two models of corporate governance structure that have evolved from English and German law, namely the one-level model / system (UK), and the two-level model / system (Germany) (Szantho, 2012: 1). Under the British model, a company is governed by one body or board (one-tier board system) that carries out management and monitoring functions at the same time. Under the German model, there are two separate body levels, namely the board of directors and the supervisory board where the board of directors performs management functions while the supervisory board (in Indonesia the board of commissioners) carries out the supervisory and monitoring functions. The second aspect, the corporate governance mechanism highlights the processes, procedures, interactions, or relationships between units or organs within the company (internal governance) and between companies and stakeholders outside the company (external governance) (Banks, 2004: 24). Internal governance highlights the clarity of functions, duties, authority, and responsibilities and the process of interaction between organs: (a) in a one-level model (board of directors, board committees, executive management, independent control groups such as finance / accounting, law, management risk, internal audit); (b) in the two-tier model (board of commissioners, board committees, board of directors, independent control groups such as finance / accounting, law, risk management, internal audit). External governance, is the relationship between companies and external control forces, such as capital markets, banks, regulatory / law enforcement bodies, institutional investors, external auditors, consumers, suppliers, the public, and other stakeholder groups. The third aspect relates to the principles, or principles of governance that form the moral foundation for behaving for every person involved in the governance structure. There are differences and diversity of principles / principles expressed by various parties, but on this occasion five principles were submitted by the National Committee on Governance Policy

(KNKG, 2006: 5-7) which are often abbreviated as "TARIF" (Transparency, Accountability, Responsibility, Independence, and Fairness). The principle of transparency requires companies to provide material, relevant, honest and easily accessible information, both required by laws and regulations, as well as those important for decision making by relevant stakeholders. The principle of accountability requires companies to be managed properly, measured and in accordance with the expectations of the relevant stakeholders. The principle of responsibility emphasizes companies to comply with laws and regulations and carry out responsibilities to the community and the surrounding environment. The principle of independence requires companies to be managed independently so that each organ of the company does not dominate each other and cannot be intervened by other parties. The principle of fairness requires the company to always pay attention to the interests of shareholders and other stakeholders based on the principle of fairness and equality.

Awan and Akhbar (2014) revealed that although regulations and enforcement of regulations have been very strict, and capital markets are considered to be very efficient in the United States, there are still problems / failures of corporate governance in large numbers in the form of: corrupt practices, inside trading, and misuse of company resources. Cuong (2011) revealed that the causes of failure of corporate governance at Enron were partly due to weak corporate governance structures, highly fertile dishonest cultures that fostered serious conflicts of interest and unethical behavior.

Based on a review of the case of the issuance of false financial statements on Enron, WorldCom, Satyam, Olympus, Toshiba, and Parmalat, Epstein (2018) revealed the same basic concerns, in the form of the failure of an independent audit company, as well as lack of attention by those responsible for governance manage the company, board of directors or members of the audit committee. Panpilli & Popa (2011), which highlights the close link between fraud and corporate governance, concludes that the failure of corporate governance will potentially always exist, in the thought that regulations remain ineffective if there is no tandem with organizational culture, supported by principles strong ethics.

Rampersad (2015) says that corporate governance failures are caused by poor ethical leadership, lack of integrity, mismanagement, fraud, corruption, and violations of corporate governance rules. Agbim (2018) concluded that ethical leadership has a significant positive effect on the company. This study establishes that strong organizations can be developed by mainstreaming corporate governance, company performance and corporate social responsibility by using ethical leaders who are natural / nurtured.

Implementation of CG in Indonesia

The implementation of good corporate governance (GCG), especially for companies in Indonesia, are regulated among others: Law No. 40 of 2007 concerning Limited Liability Companies; Regulation of the State Minister for State-Owned Enterprises Number: Per-01 / MBU / 2011, concerning Corporate Governance in State-Owned Enterprises; General Guidelines for Indonesian Corporate Governance issued by KNKG in 2006. In essence, there are no differences in principles regarding governance provisions among the three regulations above.

The main organs of a company in the form of a Limited Liability Company (PT) in Indonesia consist of the General Meeting of Shareholders (GMS), the Board of Commissioners and the Board of Directors, while the Board of Commissioners, in carrying out their duties, may form committees. For companies whose shares are listed on a stock exchange, at least an Audit Committee must be formed, while other committees are formed as needed. (KNKG, 2006: 15)

The corporate governance system refers to a two board system, namely the existence of two separate bodies: the board of commissioners and the board of directors. The Board of Commissioners's role is to supervise and provide advice to the Board of Directors, while the Board of Directors's role is to manage the company's operational activities with the company's best interest orientation (OJK, 2014a: 42). The roles, authorities, duties and responsibilities of the Board of Commissioners, Board Committees, and Board of Directors determine a clear and effective check and balance mechanism in an effort to avoid potential conflicts of interest and ensure that decisions are made in the interests of the company (OJK, 2014b: 14) .

The Basic Principles of the Board of Commissioners as a corporate organ have a collective duty and responsibility to supervise and provide advice to the Directors and ensure that the Company implements GCG. The main qualifications that must be possessed by members of the Board of Commissioners, include: (a) having the ability and integrity; (b) it is prohibited to use the company for personal, family, business group and or other parties' interests; (c) must understand and comply with the articles of association and legislation relating to their duties; (d) members of the Board of Commissioners must understand and implement these GCG Guidelines (KNKG, 2006: 14).

The Audit Committee is tasked with assisting the Board of Commissioners to ensure that: (i) financial statements are fairly presented in accordance with generally accepted accounting principles, (ii) the internal control structure of the company is well implemented, (iii) the implementation of internal and external audits is carried out in accordance with audit standards applicable, and (iv) follow-up on audit findings carried out by management (KNKG, 2006: 15).

The basic principle of the Board of Directors as a corporate organ has a collegial duty and responsibility in managing the company. The basic qualifications that must be possessed by members of the board of directors, among others: (a) must meet the requirements of ability and integrity; (b) members of the Board of Directors are prohibited from using the company for personal, family, business group and or other parties' interests; (c) members of the Board of Directors must understand and comply with the articles of association and legislation relating to their duties, (d) members of the Board of Directors must understand and implement these GCG Guidelines (KNKG, 2006: 17).

In order to achieve success in the long term, the implementation of GCG needs to be based on high integrity. Therefore, ethical and behavioral guidelines are needed that can become a reference for the company's organs and all employees in applying values and business ethics so that they become part of the company culture. Ethics and conduct guidelines contain: values, business ethics and behavioral guidelines. The company's values are the moral foundation in achieving the company's vision and mission. Business ethics is a reference for companies in carrying out business activities including interacting with stakeholders. The code of conduct includes guidance on conflicts of interest, giving and receiving gifts and donations, compliance with regulations, confidentiality of information, and reporting on unethical behavior. (KNKG, 2006: 8-10).

RESEARCH METHOD

The framework of this research can be seen in Figure 1. This research model is descriptive analysis using the failure of corporate governance at PT Garuda Indonesia Tbk as a case study. There are three successive cases at PT Garuda Indonesia Tbk that have received public scrutiny, namely corruption, the issuance of false financial statements, and smuggling of Harley Davidson motorbikes which were actually carried out by members of the Board of Directors. This study will investigate why there was a failure of governance at PT Garuda Indonesia Tbk, even though the GCG index provided by a well-known consulting agency had achieved a very good predicate (index 93,850 from a maximum score of 100).

The basic theory (grand theory) related to corporate governance is agency theory and stakeholder theory. Agency theory will explain the failure of governance due to a conflict of interest between the agent (directors) with the principal (stakeholders), while the stakeholder theory reminds all parties about the importance of agents to meet the expectations of not only shareholders, but all relevant stakeholders. Theoretically and operationally, the concepts of corporate governance and ethical leadership, as well as regulations, and guidelines on the application of related governance for companies in Indonesia, will be used as a reference in assessing the quality of corporate governance at PT Garuda Indonesia Tbk. Based on the findings of the weaknesses in the implementation of the corporate governance system, recommendations will be given to improve the corporate governance system of PT Garuda Indonesia Tbk.

The population in this study are all state-owned companies listed on the Indonesia Stock Exchange (IDX) in 2018 and have revealed GCG. One state-owned company listed on the Indonesia Stock Exchange, namely PT Garuda Indonesia Tbk, was chosen as a sample to be the subject of a case study. The sample companies selected as case study subjects are based on the following criteria: (1) the company has a case that has been published in the mass media; (2) has audited financial statements with unqualified opinion from 2014 to 2018; 3) has supporting information related to GCG in the company's annual reporting. There are 2 (two) variables in this case study research model, namely: first, the quality of corporate governance, second, ethical leadership. The quality of corporate governance is evaluated based on: (a) governance structure, (b) governance mechanisms, and (c) governance principles. Ethical leadership is evaluated based on two dimensions, namely: (a) moral person (moral person) and (b) moral manager (moral manager). This research is a type of case study research in business management / accounting science related to events or phenomena of the application of corporate governance systems at PT Garuda Indonesia Tbk during the 2017-2018 business period.

The research data was obtained using the documentation method in the form of secondary data. There are 2 (two) types of data collected, namely: first, data or information related to the topic of corporate governance, both in the form of theoretical reviews and studies of cases of failure of corporate governance practices in various scientific journals, theses, dissertations, reports, regulations, guidelines, and so on; second, specific data related to corporate governance practices at PT Garuda Indonesia Tbk contained in the Company's annual report, as well as various news, analysis, views, assessments, or comments related to the implementation of the corporate governance system of PT Garuda Indonesia Tbk, on various online media, websites , and other sources for the 2017-2019 business period.

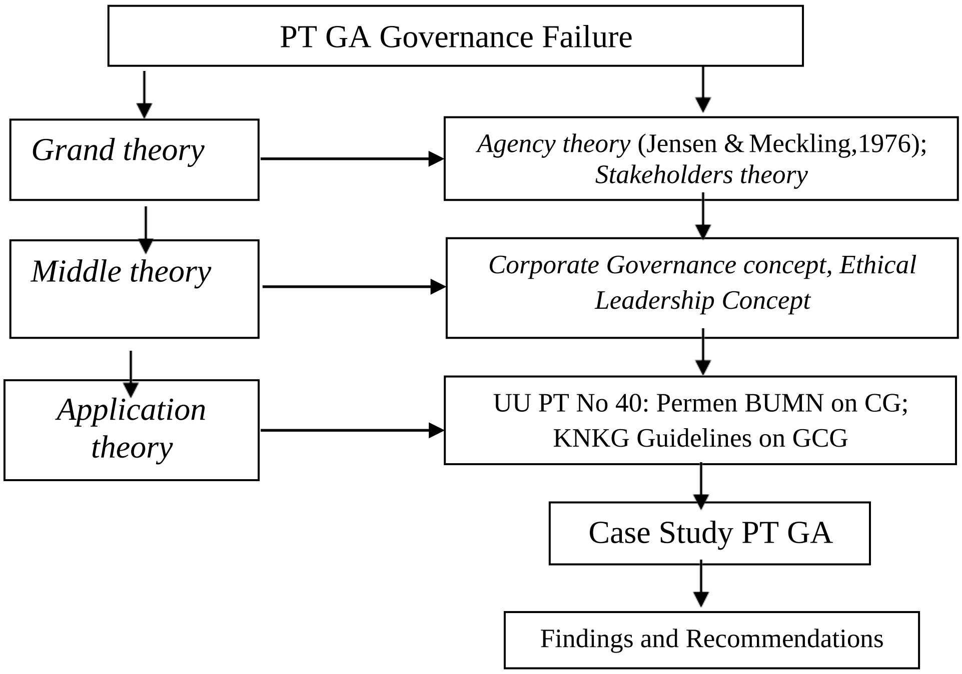

Figure 1. Research Framework

RESULTS AND DISCUSSION

The following brief description of PT Garuda Indonesia (Persero) Tbk is excerpted from the Annual Report of PT Garuda Indonesia (Persero) Tbk Book Year 2018 (PT Garuda Indonesia, 2019b). PT Garuda Indonesia Tbk (hereinafter referred to as "the Company") was established based on Deed No. 137 dated March 31, 1950 of Notary Raden Kadiman and the deed of establishment was approved by the Minister of Justice of the Republic of Indonesia in its decision letter No. J.A.5 / 12/10 dated March 31, 1950 and announced in the State Gazette of the Republic of Indonesia Number 30 dated May 12, 1950, additional No.136. The Company's Articles of Association have been amended several times; last performed based on Deed No. 35 dated May 17, 2018 from Aulia Taufani, S.H., a notary in Jakarta, and was received by the Ministry of Law and Human Rights of the Republic of Indonesia based on the Letter of Notification of Amendment to the Articles of Association No. AHU. AH.01.03-0214641 on June 8, 2018

The Company has conducted an assessment or assessment of the implementation of GCG for the business year 2017 and 2018, based on the Minister of State Owned Enterprises Regulation No. PER-09 / MBU / 2012 dated July 6, 2012 concerning the Implementation of Good Corporate Governance in State-Owned Enterprises (BUMN). The assessment or assessment is carried out by an assessor from PT Multi Utama Indojasa (MUC Consulting). The results of the assessment of GCG implementation in 2017 reached a total score of 92.764 out of a maximum score of 100 or 92.764%, with the title "Very Good". While the results of the assessment of GCG implementation in 2018 increased in total with a total score of 93.850 from a maximum score of 100 or 93.850%, with the predicate “Very Good”.

The GCG index of 6 (six) GCG components in 2017 and 2018 are respectively: commitment to the implementation of corporate governance (95,833%; 96,557%), shareholders / GMS (98,590%; 97,309%), board of commissioners / supervisory board (supervisory board (98.590%) 89,701%; 90,338%), directors (95,733%; 96,384%), information disclosure and transparency (94,785%; 95,617%), and other aspects (75.00%; 87,500%), and total (92,764%; 93,850%). The scores / scores of all components of GCG (commitment to GCG, shareholders, board of commissioners, board of directors, disclosure of information, and other aspects) are above 85.00% so they are considered “very good”. If assessing the implementation of the corporate governance system, as published in the official annual report of PT Garuda Indonesia Tbk, in the 2018 business year above, it can be concluded that the company has established a corporate governance system (structure, mechanism and principles of governance) with “very good”.

In contrast to the official report of PT Garuda Indonesia Tbk which states that the Company’s governance system has been running very well as described in section B above, various major media often report various violations in the implementation of the governance system at PT Garuda Indonesia Tbk. This study tries to evaluate the implementation of the corporate governance system of PT Garuda Indonesia Tbk, which is based on 2 (two) data / information sources which in some cases are very different and even contradictory to one another. The two data / information sources are: (a) the official report of PT Garuda Indonesia Tbk; (b) data / information sourced from various mainstream media.

The main problem to be evaluated is the factual differences between what is officially reported by the Company and what is published by various mainstream media related to the implementation of the corporate governance system at PT Garuda Indonesia Tbk. The two opposing facts include: (1) The official report of the Board of Directors and Board of Commissioners of PT Garuda Indonesia Tbk submitted in the 2018 Annual Report of the Company revealed that the implementation of the Corporate Governance System for the 2017 and 2018 business years has been going very well. This is supported by the results of the GCG index assessment conducted by MUC Consulting consultants, respectively for 2017 and 2018 with a score of 92,764 and 93,850 out of a maximum score of 100 so that it gets the title “Very Good”. (2) News from various media about irregularities in the implementation of the corporate governance system, including: (a) allegations of corruption by former President Director of PT Garuda Indonesia Tbk, (b) issuance of false financial statements, (c) smuggling of Harley Davidson motorcycles suspected of involving company directors, (d) concurrent positions of members of the board of directors as commissioners in several children and grandchildren of the company, (e) allegations of a flight ticket price cartel with a number of airlines, (f) a decline in the Company’s share price index since 2015.

Some cases of violations of the implementation of a good corporate governance system (Good Corporate Governance / GCG) reported by various trusted media above can be summarized below.

1. Alleged corruption of former President Director

Emirsyah Satar, former President Director of PT Garuda Indonesia for the period 2005-2014, has been known as a figure who played an important role in improving Garuda's performance. But no one thought that at the end of his career at Garuda, he was named as a suspect in the bribery case of procurement of aircraft and aircraft engines from Airbus SAS and Rolls Royce by the Corruption Eradication Commission (KPK) (Aron, 2017; Rahayu, 2019). This case is in the process of being investigated in court, but based on the experience of the KPK, which has so far almost never lost a case in prosecuting corruption in court, it is likely that Emirsyah Satar will be found guilty by the court. If this is the case, the former Garuda president director has violated: (1) GCG principles (in this case: the principle of responsibility); (2) business ethics guidelines; and (3) gratification guidelines set by Garuda management.

2. False financial statements

It began at the Annual General Meeting of Shareholders (AGM) held on April 24, 2019 in Jakarta, where one of the agenda was the ratification of the Company's financial statements for the 2018 business year. At the meeting, two commissioners namely Chairul Tanjung and Dony Oskaria, who were representatives from PT Trans Airways and Finegold Resources Ltd as the holder of 28.08% stake in Garuda, provided a note of disapproval (dessenting opinion) to authorize the Company's financial statements for the 2018 business year due to objections to the recognition of revenue from the Mahata cooperation agreement with Citilink (a Garuda subsidiary)) amounting to US $ 239.94 million, which is considered not in accordance with applicable financial accounting standards (Dwijayanto, 2019). In fact, the Company's financial statements have been audited by the Independent Public Accounting Office Tanubrata Sutanto Fahmi Bambang and colleagues, with fair opinions in all material matters and in accordance with Financial Accounting Standards in Indonesia.

The controversy over the legalization of the Company's financial statements at the Garuda AGMS invited attention and news coverage, which in turn provoked regulators and related agencies (Ministry of Finance, Financial Services Authority, and the Indonesia Stock Exchange) to intervene. The results of the examination of these three agencies found evidence that the company had manipulated financial statements. OJK requires the company to conduct a restatement of its financial statements, also impose a financial penalty of Rp. 100 million, a Rp. 100 million to the entire board of directors, and a Rp. 100 million fine borne jointly by the board of directors and commissioners who signed the 2018 financial statements (Fauzia , 2019)

In the aftermath of the impropriety of the Company's financial statements, the Ministry of Finance also imposed a 12-month permit freeze sanction on the public accountant (AP) Kasner Sirumapea and the Public Accounting Firm (KAP) Tanubrata, Sutanto, Fahmi, Bambang & Partners, as auditors of PT. Garuda Indonesia

(Persero) Tbk. AP Kasner Sirumapea and KAP Tanubrata, Sutanto, Fahmi, Bambang & Partners were considered to have violated audit standards in auditing PT Garuda Indonesia's financial statements for the 2018 business year (Ministry of Finance, 2019). It is unfortunate, that the Company's financial statements for 2018 which have been manipulated have been approved at the Annual General Meeting of Shareholders (AGM) held on April 24, 2019. After being highlighted by various media, and after being reviewed by three regulators (Ministry of Finance, OJK, IDX) is proven that the Company's financial statements have been manipulated.

With the above phenomenon, it can be concluded that the implementation of control mechanisms in the Company's governance system, at various levels of control both internal (board of directors, audit committee, board of commissioners, and GMS) and external (audit by external auditors), except the role assumed by 2 (two) commissioners Chairul Tanjung and Dony Oskaria, have failed in carrying out the control function in detecting the irregularities of financial statements before they are approved at the AGM.

3. Smuggling of Harley Davidson Motorcycles

CNBC Indonesia reported on the steps of the Minister of State-Owned Enterprises Erick Thohir who dismissed four of the seven members of the board of directors of PT Garuda Indonesia (Persero) Tbk, for being involved in the smuggling scandal of Harley Davidson motorcycles and Brompton bicycles. The smuggling scandal involved Managing Director Ari Askhara, along with three other directors allegedly involved, namely Technical and Service Director Iwan Joeniarto, Cargo and Business Development Director Mohammad Iqbal, and Human Capital Director Heri Akhyar (Hastuti, 2019; Nurdiana, 2019). With the above phenomenon, it can be concluded that four of the seven members of the board of directors of PT Garuda Indonesia have violated one of the principles of GCG, namely the principle of "responsibility" because they have deliberately violated the law, as well as violating the Company's business ethics because they are more concerned with their own interests without caring with the company's reputation as well as harming the country's finances by not paying import duties.

4. Double positions of individual members of the board of directors

TEMPO.CO reported the recognition of the Minister of State-Owned Enterprises (BUMN) - Erick Thohir - who claimed to be shocked by the number of directors of SOE companies holding concurrent positions as commissioners. In fact, said Erick, he received a report that there were directors who were concurrently commissioners in 6 BUMN companies (Anggraini, 2019). As reported by CNN Indonesia.com (2019), the ex-directors of PT Garuda Indonesia Tbk hold dual positions as commissioners in the children and grandchildren of PT Garuda Indonesia Tbk. Table 2 reveals the concurrent details of the positions of former members of PT Garuda Indonesia Tbk's directors, as the chief commissioner or commissioner of several children and grandchildren of PT Garuda Indonesia Tbk.

Table 1
Concurrent Position of Garuda's Ex-Director on Subsidiary and Its Subsidiary Company

No	Ex. Board of Directors	Double position
1	Ari Askhara (former chief director)	1. PT GMF AeroAsia's main commissioner (subsidiary company) 2. PT Citilink Indonesia's main commissioner (subsidiary company) 3. PT Aerofood Indonesia's main commissioner (its subsidiary company / grandchlid company) 4. PT Garuda Energi Logistik & Komersil's main commissioner (its subsidiary company / grandchlid company) 5. PT Garuda Indonesia Air Charter's main commissioner (its subsidiary company / grandchlid company) 6. PT Garuda Tauberes Indonesia's main commissioner (its subsidiary company / grandchlid company)
2	Bambang Adisurya Angkasa (former operations director)	1. Commissioner of PT Gapura Angkasa (subsidiary company) 2. PT Sabre Travel Network Indonesia's main commissioner (subsidiary company) 3. Commissioner of PT Aero Globe Indonesia (its subsidiary company / grandchild company) 4. Commissioner of PT Aerotrans Service Indonesia (subsidiary company)
3	Mohammad Iqbal (former Director of Cargo and Business Development)	1. PT Gapura Angkasa's main commissioner (subsidiary company) 2. Commissioner of PT Aerojasa Perkasa (its subsidiary company / grandchild company) 3. Commissioner of Aerojasa Cargo (its subsidiary company / grandchild company) 4. Commissioner of PT Citra Lintas Angkasa (great-grandchild company) 5. Commissioner of Garuda Tauberes Indonesia (its subsidiary company / grandchild company).
4	Iwan Joeniarto (former Director of Engineering and Services)	1. PT Aerosystem Indonesia's main commissioner (subsidiary company) 2. Commissioner of PT Aero Wisata (subsidiary company) 3. Commissioner of PT Aerofood Indonesia (great-grandchild company) 4. Commissioner of PT Garuda Energi Logistik & Komersil (its subsidiary company / granchild company) 5. PT Garuda Daya Pratama Sejahtera's main commissioner (its subsidiary company / grandchild company) 6. Commissioner of PT Garuda Indonesia Terapan Cakrawala Indonesia (Its subsidiary company / grandchild company)
5	Heri Akhyar (former Human Capital Director)	1. Commissioner of PT Aerofood Indonesia (its subsidiary company / grandchild company) 2. PT Aeroglobe Indonesia's main commissioner (its subsidiary company / grandchild company) 3. GIH Indonesia's main commissioner (its subsidiary company / grandchild company) 4. Commissioner of PT GOH Korea (its subsidiary company / grandchild company) 5. Commissioner of Strategic Function PT GOH Jepang (its subsidiary company / grandchild company) 6. Commissioner of PT Garuda Indonesia Air Charter (its subsidiary company / grandchild company) 7. Commissioner of PT Garuda Daya Pratama Sejahtera (its subsidiary company / grandchild company) 8. PT Garuda Indonesia Terapan Cakrawala Indonesia's main commissioner (its subsidiary companya / grandchild company)

Source: Anggraini, 2019

With the above phenomenon, it can be concluded that all of Garuda's board of directors have violated one of the GCG principles, namely the principle of independence, as well as violating business ethics (in this case: greed receives excessive rewards from concurrent positions which are detrimental to the Company).

5. Alleged existence of a flight ticket price cartel

Guntur Syahputra Saragih, a commissioner at the Business Competition Supervisory Commission (KPPU), stated that his agency (KPPU) was investigating allegations of plane ticket prices carried out by two airline business groups - Garuda Indonesia Group and Lion Air Group -, which involved seven airlines airlines (Garuda Indonesia, Citilink, Sriwijaya Air, NAM Air, Lion Air, Batik Air, and Wings Air) (Ekarina, 2019). Examination of the alleged KPPU cartel is carried out based on Article 5 and Article 11 of Law Number 5 of 1999 concerning Prohibition of Monopolistic Practices and Unfair Business Competition. Article 5 concerning price fixing states that business actors are prohibited from entering into agreements with business competitors to determine the price of goods and or services that must be paid by consumers or customers in the same relevant market. Whereas Article 11 regarding a cartel reads that business actors are prohibited from making agreements with business competitors, which intend to influence prices by regulating the production and or marketing of goods and or services, which may result in monopolistic practices and or unfair business competition. With the above phenomenon, the directors and commissioners of the Company have deliberately harmed one of the Company's main stakeholders, namely customers or consumers, and strangely even more favored its business competitors (Lion Group). This means that the directors and commissioners of PT Garuda Indonesia Tbk have violated one of the GCG principles, namely "fairness", and created agency problems or conflicts of interest with the main stakeholders - the company's customers.

6. Declining stock price index

The graph of PT Garuda Indonesia's stock prices can be seen in Garuda Indonesia IDX:GIAA. From the chart of PT Garuda's stock prices for the last 5 (five) years (2015-2019), it appears that the company's stock price index tends to decline continuously. In 2015 Garuda's share price was still above IDR 500.00, but towards the end of 2019, Garuda's stock price had almost touched IDR 200.00. This means that over the past 5 years, shareholders have suffered a loss of around IDR 300.00 per share.

The company's vision is: "Value-Driven Aviation Group, Bringing Indonesian Hospitality to the World (US $ 3.5 Billion)", while one of the company's missions is: "Maximizing group value for better shareholder returns among regional airlines". With the company's share price performance continuing to decline as disclosed above, the Company's Vision as a "Value-Driven Aviation Group", as well as the company's mission to maximize the value of returns for shareholders has not been realized, even though in fact it is detrimental to shareholders. By examining the two sources of reports that are often conflicting as disclosed above, this research believes that reports sourced from the mainstream media can be trusted with 2 (two) strong reasons, first, the news sources come from credible agencies / oversight institutions, such as: Financial Services Authority (OJK), Ministry of Finance, Business Competition Supervisory Commission (KPPU), and Corruption Eradication Commission (KPK); second, quoted or reviewed by various mainstream media which are also credible, such as kompas.com, CNN Indonesia, detik.com, and so on.

The lesson to be learned from the case of PT Garuda Tbk, as outlined above is that the establishment of a corporate governance system that appears to be very good, does not necessarily guarantee its implementation is also going well. Almost all leaders at the highest levels of PT Garuda Indonesia Tbk (board members, commissioners and audit committee members) as well as leaders at the Public Accounting Firm (KAP) Tanubrata, Sutanto, Fahmi, Bambang & Partners have crashed into the rules and principles governance and business ethics or professional ethics that they set themselves. A business entity or organization that is commanded by a leader with no integrity, often creates a system that looks good just as a shield to do "windowdressing".

The mode of violation of the corporate governance system and business ethics that occurred at PT Garuda Indonesia, which was carried out by almost all levels of the company's top management, was actually not something new. This mode of violation is merely a repetition of what business leaders have done in various multi-national companies such as Enron, WorldCom, Satyam, Olympus, Toshiba, and so on. All of these multinational companies were initially very well-known as reputable companies with excellent governance and business ethics (professional) systems, but eventually they were revealed, the company executives themselves who violated the rules they created.

The question now is: why do governance failures and failures to apply business ethics often occur in companies and public accounting firms, even though these companies and public accounting firms are known to have a system of corporate governance and excellent business ethics or professional ethics guidelines? Previous researchers have actually revealed that the companies that failed to implement a good corporate governance system were companies that experienced an ethical leadership crisis.

The classic approach in developing an organization that is more ethical and more responsible so far has not been much interested in the (ethical) leadership aspects, but rather focused on regulation and process (Bachmann, 2015: 22). Most people have long assumed that something is: "taken for granted", that business leaders are ethical people. But after scandals and crises that occurred in various companies, trust in business leaders has been shaken (Dang, 2013: 7). The successful implementation of a system - whether it is a corporate governance system, corporate social responsibility, or a business code of ethics, or professional code of ethics - depends more on ethical leadership as a link, a thought that seems lost in most business and ethics literature (Bachmann, 2015: 23).

The results of this study, - through the findings of an ethical leadership crisis in almost all ranks of PT Garuda Indonesia's highest leaders -, further strengthened the views of researchers and recent experts who revealed that the failure of implementing corporate governance systems in various multinational companies was due to the absence of ethical leadership in the company's top management. They (the researchers) agreed to emphasize the important role of an ethical leadership in an entity or organization.

Therefore, this research wants to reaffirm the prerequisites, characteristics, and components of an ethical leadership that must be considered in a process of selecting or training prospective leaders, as follows: First, the prerequisites in the selection or training to become a leader, involves three aspects as a whole that need to be considered: knowledge (knowledge), skills (skills), and attitude behavior (attitude). The third aspect - attitude behavior - is often overlooked in every selection or training process. Second, prospective leaders should have two dimensions of ethical leadership, namely the moral person (moral person), and the moral manager (moral manager). The moral person implies the importance of every leader forging himself, building moral awareness as an ongoing process so as to have a strong personal character and integrity. The moral manager is the ability of every leader - through his influence to set an example, becoming a role model for his subordinates to behave ethically. Third, the components inherent in a leader who has the characteristics of ethical leadership, among others: feeling grateful, humble, fair, grace and affection, prudent and objective, generous, with integrity and having endurance.

CONCLUSIONS

This study tries to explore the factors that cause the failure of the implementation of corporate governance systems in a business entity. The subject of this research is PT Garuda Indonesia Tbk, which is one of the entities of State-Owned Enterprises (SOEs), as well as a public company listed on the Indonesia Stock Exchange. The research method uses a case study approach. The research data in the form of secondary data consisting of the Company's annual report for the 2018 business year, as well as other information related to the implementation of corporate governance at PT Garuda Indonesia sourced from the relevant supervisory agencies / institutions, which are published in various mainstream media at Indonesia.

The conclusions from the results of this study are: (1) Establishment of a corporate governance system that looks very good as officially reported by the leadership of PT Garuda Indonesia Tbk in the Company's annual report for the 2018 business year, does not necessarily guarantee its implementation is also going well. (2) Almost all leaders at the highest levels of PT Garuda Indonesia Tbk (members of the board of directors, members of the board of commissioners, and members of the audit committee) as well as leaders at the Public Accounting Firm (KAP) Tanubrata, Sutanto, Fahmi, Bambang & Partners have broken the rules, the mechanisms and principles of governance as well as business ethics or professional ethics that they set themselves; (3) The mode of violation of the corporate governance system and business ethics that occurred at PT Garuda Indonesia is actually not something new. This mode of violation is merely a repetition of what business leaders have done in various multi-national companies, such as Enron, WorldCom, Satyam, Olympus, Toshiba, and so on. (4) One of the main factors causing the failure of implementing a good corporate governance system at PT Garuda Indonesia Tbk is the existence of an ethical leadership crisis in almost all levels of the highest leadership in the company. The results of this study further strengthen the views and findings of the results of previous studies as revealed by Trevino, et al., 2003; Brown & Treviño, 2006; Marcy, Gentry, and McKinnon, 2008; Dang, 2013; Bachmann, 2015; Hegarty, 2018; Agbim, 2018, and others in the scandals of various multinational companies in various countries.

The case study of violations of the corporate governance system at PT Garuda Indonesia, Tbk is only based on two types of secondary data, namely the official annual report published by the Company, as well as reporting in various media related to the implementation of the corporate governance system at PT Garuda Indonesia, Tbk. So that research results are more careful, it is advisable for further researchers in addition to using secondary data, also conducting observations and direct interviews with relevant officials in companies that are subject to research. Implications of Research Results : (1) Based on the findings of an ethical leadership crisis at PT Garuda Indonesia, it has further strengthened the views of researchers and recent experts who emphasized the important role of ethical leadership in an entity or organization. (2) This study wants to reaffirm the prerequisites, characteristics, and components of an ethical leadership that must be considered in a process of selecting and / or training prospective leaders. (a) Prerequisites in selecting or training to become a leader need to consider not only knowledge, as well as experience and mastery of technical skills (skills), but also attitude attitude (attitude). The third aspect - attitude behavior - is often overlooked in every selection or training process. (b) Prospective leaders should have two dimensions of ethical leadership, namely the moral person (moral person), and the moral manager (moral manager). The moral person implies the importance of every leader forging himself, building moral awareness as an ongoing process so as to have a strong personal character and integrity. The moral manager is the ability of every leader - through his influence to set an example, becoming a role model for his subordinates to behave ethically. (c) The components inherent in ethical leadership include: feeling grateful, humble, fair, grace and compassion, prudent and objective, generous, with integrity and endurance.

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