Who supervises the board?

Indonesia's two-tier board system works well and could be a model for other countries. That's according to the president of the supervisory board of commissioners at major telco PT Telekomunikasi, Tanri Abeng, who says he's "a little bit critical" of the single-board system used elsewhere.

Speaking at the INSEAD Leadership Summit in Asia, Abeng, who was minister for state enterprises in the late 1990s, said that "in any organisation, including a country, you have to make sure there's no absolute power."
Tanri Abeng (left) with INSEAD Dean Frank Brown

"In the one-board system you sometimes have a non-executive chairman, but how much loyalty will this chairman have to effectively exercise this power? On the other hand, when the executive chairman has all the power, who is controlling him (and the board of directors)?"

In the West, financial institutions have come in criticism following the financial crisis, particularly on issues such as executive compensation. Abeng says that in Indonesia, the supervisory board of commissioners plays a 'tremendous role' in making sure the board of directors stays 'on track'.

“This is the reason why I’m a little bit critical of the one-board system and I’ve been practising the two-board system with supervisory (commissioners) and executive boards (directors).”

“These two boards are separate. All executive powers are in the hands of the board of directors, but the commissioners have three main tasks. One is to approve certain areas of power, whether by articles of association or by the order of shareholders (to oversee) the actions and behaviour of the board of directors. Second, the board of commissioners can work together in synergy with the board of directors to formalise strategies so in this they work together in the spirit of a one-board system. But the major benefit of the two-board system is that the board of commissioners independently employs audit and compensation committees, with all the tools needed to control the performance and conduct of the board of directors.”

He adds that, otherwise, these tools would never have been used by the direct owners of the corporation, whether it be a government-held or privately-owned company.

The supervisory board can “independently suggest to shareholders that the entire board must be fired,” Abeng says, adding that he had taken part in such a move before.

Both are accountable by law. It’s up to the board of directors to make sure the corporation produces the required results, with the supervisory board having “the accountability to ensure that all the governance (measures) are practised, that the strategies are implemented correctly, and that the board of directors is not going off track.”

“The board of commissioners cannot just say, ‘I’m non-executive, so I’m going to play golf.”

There had been a time, he says, when seats on the board of commissioners had been “a commodity and traded due to political connections. They had no knowledge at all of business, but this is changing” and adds there is now greater appreciation of the supervisory boards whose members come from the legal and financial sectors.

Abeng acknowledges, however, there aren’t enough people of the right calibre to fill board slots, especially given that there are around 150 state-owned enterprises. “You don’t have 100 (people), so that’s (INSEAD’s) task.”

Since the onset of the global financial crisis, Asia's governments, like others elsewhere, have been playing an increasingly important role. "The USA is almost like a socialist country. When I was in China (last month to see how state capitalism works), the Chinese said that maybe (US President Barack) Obama should come here to learn how to apply capitalism," he told the INSEAD Leadership Summit in Asia to laughter.

Indonesia's economy had been hard hit in the past by the actions of 'greedy entrepreneurs,' he says, and now businesses there need to learn 'scientific' management techniques.

"Up to the crisis of 1998, most of the private sector conglomerates controlling around 40 per cent of the economy collapsed, as they did not apply a scientific approach to management. They were entrepreneurially greedy, wanting to expand all the time without looking at the formula of a successful business model."

"This has changed. The new generation of leaders wants to take new roles in managing their corporations. Likewise, the state-owned enterprises (SOEs) were all monopolies ... They needed a lot of help in analysing and structuring businesses, putting in the right management. These are the sort of things (INSEAD) can do."

On his recent trip to China, he had visited telecoms company Huawei, whose sales have risen to 25 billion dollars from five billion within five years. "I said, 'how did you manage that because you're a privately-run company?' They said, 'we apply our wisdom of the Chinese entrepreneur, but the total management of the company was Western -- IBM for general management principles, Pricewaterhouse for the financial system, Hay and Associates for human resource management, and a German company for their quality control."

"They combined the entrepreneurial wisdom and the modern management system, so they have a very balanced approach. At one time they could be very aggressive, but they have a very well-designed system of control which means they don't follow the (practices of) Indonesia's greedy entrepreneurs."

That said, Indonesia is changing and "you will find new faces there," he says.

"Business always follows the development of the (political) environment. If the environment is transparent, business will follow that, so business behaves in the way the (political) environment behaves."

However, he adds, "ownership matters." And in the case of Indonesia's state enterprises, the government is still in the driving seat, and that has meant too much bureaucracy and political influence, with each of the country's nine political parties trying to ensure that their representative or candidate gets a seat at the table.

In China, he says, corporations are looking primarily to make money. "They say, 'you're a corporation, so act and behave like a corporation and produce profits.'" And they have: Chinese SOEs posted profits of 139 billion dollars last year, he says, compared with 29 billion five years earlier.

Abeng says that during his time as minister for state enterprises, he had proposed to privatise the SOEs through share offerings to reduce the amount of political influence. He acknowledges that even today there is very little privatisation of SOEs, which account for about 60 per cent of the corporate sector. Indeed, Telkom itself has been partially privatised, with the company still majority-held by the government.

In the Asian financial crisis of 1997-98, Tanri Abeng told INSEAD Knowledge in an interview, the government needed to raise funding from the privatisation of the SOEs but encountered resistance both politically and within the enterprises themselves. Subsequently, the focus shifted and "because of that resistance, until today, we haven't been able to (carry out) privatisations. So I changed my strategy from privatisations to consolidations and making (the SOEs) more profitable. So, over time, you can privatise through IPOs (initial public offerings)."

Government and political interference though is still posing problems, with the result that the SOEs are finding it difficult to attract talent. "Good people, competent people want to be given freedom and challenges, but in state-owned enterprises there's too much government, political intervention."

To overcome this, he says, the country's president and parliament need to agree to put the minister of state enterprises in charge of the SOEs. Once that happens, he says, "this person will be able to appoint the right people professionally. That has not happened and I'm a little afraid this may not be 100 per cent implemented even in this second term of (president) Susilo Bambang Yudhoyono."

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