



CORPORATE GOVERNANCE CASE STUDIES | INDONESIA

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IFC

**International
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WORLD BANK GROUP

Creating Markets, Creating Opportunities

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BLUE BIRD

BUSINESS	Provides transportation services in Indonesia with a focus on four verticals: taxis, limousines, car rentals, and chartered buses
LOCATION	Indonesia
SECTOR	Transportation
2016 PROFIT	US\$ 36.9 million (Source: 2016 Annual Report)
TYPE	Publicly traded (IDX)
# EMPLOYEES	3,961 (Source: 2016 Annual Report)
# TOTAL FLEET	+35,000
IFC ASSESSMENT DATE	August 2015

Blue Bird Tbk, a leading transport group in Indonesia that owns and operates more than 15 subsidiaries, was incorporated in 2001 and went public in 2014. The Company has consistently displayed positive performance, as demonstrated by its reported net revenue of US\$ 353 million in 2016.

As a leading passenger transportation company in Indonesia, Blue Bird currently has a fleet of more than 35,000 vehicles serving more than 10 million passengers per month in 17 different locations throughout Indonesia. Its core business lines include regular taxi services, executive taxi services, limousine and car rental services, and charter bus services. The Company plans to expand both its taxi and non taxi business through geographical expansion and new business opportunities while continuing to invest in improving efficiency across all business segments.

WHY CHANGE?

Following its IPO, Blue Bird approached IFC to support the Company's efforts to strengthen its corporate governance (CG) framework and policies to go beyond compliance with local regulations and align the company's governance with international leading practices and standards. The decision to engage IFC Corporate Governance Group was a strategic one that was in line with Blue Bird's overall growth strategy. Blue Bird Group's dramatic transformation from a modest family-owned business into a professionally run listed company and one of Indonesia's leading transportation providers required a significant re-configuration in the company's governance structure and practices.

The Company wanted to set a tone at the top that highlights the importance of CG. However, since many members of the Board of Commissioners (BoC) and Board of Directors (BoD) were relatives, the leadership knew they needed to develop formal board charters and terms of reference (TORs) to clearly articulate the roles of the BoC and BoD and clarify the responsibilities of each body within the organization. In terms of internal controls, Blue Bird's Internal Audit function needed improvement and dedicated resources to monitor systemic risks. Regarding the treatment of shareholders, the Company did not have policies to address conflicts of interest, insider trading or related party transactions, which was problematic since family members were represented in the BoC and BoD of both Blue Bird and affiliated companies. The founders understood that better governance would bring added value

and that value creation would come from better management of risks. By spearheading a review of its CG, Blue Bird showed its proactive stance and foresight.

WHAT DID THEY CHANGE?

In April 2016, IFC conducted a diagnostic of Blue Bird's CG practices and developed a practical, action-oriented plan to help the Company improve its governance structures and practices. In collaboration with IFC, Blue Bird developed a comprehensive CG Manual to clearly outline how the Company should be governed. To enhance the effectiveness of its boards and more clearly delineate their roles and responsibilities, TORs were created for BoC and BoD members as well as for board-level Committees and the Corporate Secretary. The composition of the BoC and BoD was reviewed to ensure that both boards would be led by capable, independent members equipped with the expertise necessary to steer the Company moving forward. To improve the capacity for monitoring risks, the Company strengthened its Internal Audit Unit and established a more formal risk management framework. With expectations of transforming from a privately held family business to a rapidly growing public company, the founders explored the development of a family governance framework, including a family constitution, in order to set the vision, values, and policies regulating the family relationship with the business and ensure the continuity of Blue Bird for generations to come.

Mr. Purnomo, Blue Bird Group Founder

"As a family-owned company, the growth of our business was no different than any other startup. We started small but over time became one of the largest transport groups in Indonesia. With IFC's support, we have developed a robust corporate governance framework and key policies to ensure that our business continues to serve the interests of all our stakeholders (including our staff, employees, customers, and our investors) and be a corporate governance leader in our industry."

SUMMARY OF KEY CHANGES

	KEY CHALLENGES	KEY CHANGES
Commitment to Corporate Governance	To clearly demonstrate their commitment to CG, the founders wanted to put in place a proper governance and family governance framework and establish CG policies and codes beyond regulatory requirements.	Developed a more formal governance framework starting with a CG Manual that outlined the principles of governance and a Code of Conduct that defined Blue Bird's ethical values. Disclosed these codified documents to shareholders, staff, and the public.
Board Effectiveness	<p>Composition: The industry experience and functional skills of BoD members was appropriate, however the size (4 Directors) was limited.</p> <p>Structure: Since the majority of BoC and BoD members were family members and not independent, and their experience was concentrated on the Company's industry, there were challenges in terms of oversight of management who, in many cases, were also family members. This represented a potential conflict of interest at times.</p> <p>Roles: No formal board charter to establish roles of the BoC and BoD.</p> <p>Corporate Secretary: No documented roles for the Corporate Secretary.</p> <p>Procedures: Informal board working procedures, in particular for BoC meetings and in the quality and depth of board papers to help Commissioners and Directors in their oversight duties.</p> <p>Evaluation: No established process for evaluating BoC and BoD members.</p> <p>Succession Planning: No formal, clear succession plan or process.</p>	<p>Composition: The BoD added an additional independent Director unaffiliated with the family, who currently serves as the CFO.</p> <p>Structure: Leadership worked to find the right equilibrium in terms of size and balance between family and non-family members and oversight of management to avoid conflicts of interest.</p> <p>Roles: Created a Board Charter and documented the responsibilities of the BoC and BoD, including their TORs, in the CG Manual and Charter.</p> <p>Corporate Secretary: Developed TOR to define the responsibilities of the Corporate Secretary based on best practices.</p> <p>Procedures: Incorporated provisions for board meeting procedures in the CG Manual. Established a formal annual calendar of BoC and BoD meetings and enhanced meeting packages and agendas. Ensured board materials were shared 5 days in advance of meetings.</p> <p>Evaluation: Instituted a formal process for evaluating BoC and BoD members and as a group annually with formal objective-setting procedures to serve as KPIs.</p> <p>Succession Planning: The BoC, led by the Nomination and Remuneration Committee, identified key senior management positions for consideration. Established emergency interim plans and targeted individuals who could fulfill each role. Set up a longer term strategy to nurture internal talent.</p>
Management Control	Internal Audit: With 11 members, the Internal Audit Department's scope was narrow and focused on financial aspects including fraud detection and	Internal Audit: Widened scope of work plan to focus on risk-based audit, IT audit, operation and accounting audits, and files recording/archiving.

SUMMARY OF KEY CHANGES

	KEY CHALLENGES	KEY CHANGES
Management Control	<p>mismanagement of cash collection and reconciliation.</p> <p>Compliance: There was no whistleblower policy.</p>	<p>Strengthened Internal Audit function to ensure it provided input to the BoC's Audit Committee and independent assurance on the effectiveness of controls and risk mitigation practices.</p> <p>Compliance: Established organization-wide whistleblower policy for drivers and customers.</p>
Disclosure and Transparency	<p>Public Disclosures: Annual Reports were not completed with high quality financial and non-financial information. The website lacked information on CG policies.</p> <p>External Auditor: The GMS selected the external auditor.</p>	<p>Public Disclosures: Provided more detailed information in English on the CG framework in the Annual Report and on the website.</p> <p>External Auditor: Audit Committee tasked with selecting the external auditors and given authority to monitor and oversee their work.</p>
Shareholder and Stakeholder Relations	<p>Shareholder Protection: Informal policies existed to protect minority shareholders.</p> <p>Conflicts of Interest/RPTs: No policies in place on conflicts of interest or RPTs. Family members were members of the BoC and BoD of both Blue Bird and its sister or parent companies.</p> <p>Dividends: No transparent or easy mechanisms for determining the amount of dividends to be distributed to shareholders.</p>	<p>Shareholder Protection: Formally improved practices in treating all shareholders, including minority shareholders, fairly and equitably. Formalized AGM in terms of notification time, meeting agenda, advanced sharing of materials, voting mechanisms, proxies, and shareholders' rights to information and representation.</p> <p>Conflicts of Interest/RPTs: Developed policies to ensure family members are not involved in conflicting business decisions nor are they permitted to serve on the BoC and BoD at Blue Bird and other Group subsidiaries simultaneously, to ensure transactions were conducted at arms' length terms.</p> <p>Dividends: Adopted a clearly stated and rational dividend policy in line with shareholder preferences and best practices.</p>

BLUE BIRD REPORTED THE FOLLOWING IMPACTS TWO YEARS AFTER EMBARKING ON THE CHANGES:

Access to Capital

Although the Company has never had a problem accessing capital, Blue Bird reported US\$ 295 million in financing facility since major corporate governance changes were implemented.

Sustainability

Corporate Governance changes laid a critical foundation for the company to ensure its longevity and long-term sustainability. The positive steps taken by Blue Bird to address key governance issues, including family governance, will help ensure an appropriate balance between the family and the business.

Board Oversight

Blue Bird achieved clarity of roles and improved coordination among key governance functions through the development of board charters and improved board working procedures, which further strengthen the BoC's oversight capacity and strategic stewardship of the Company.

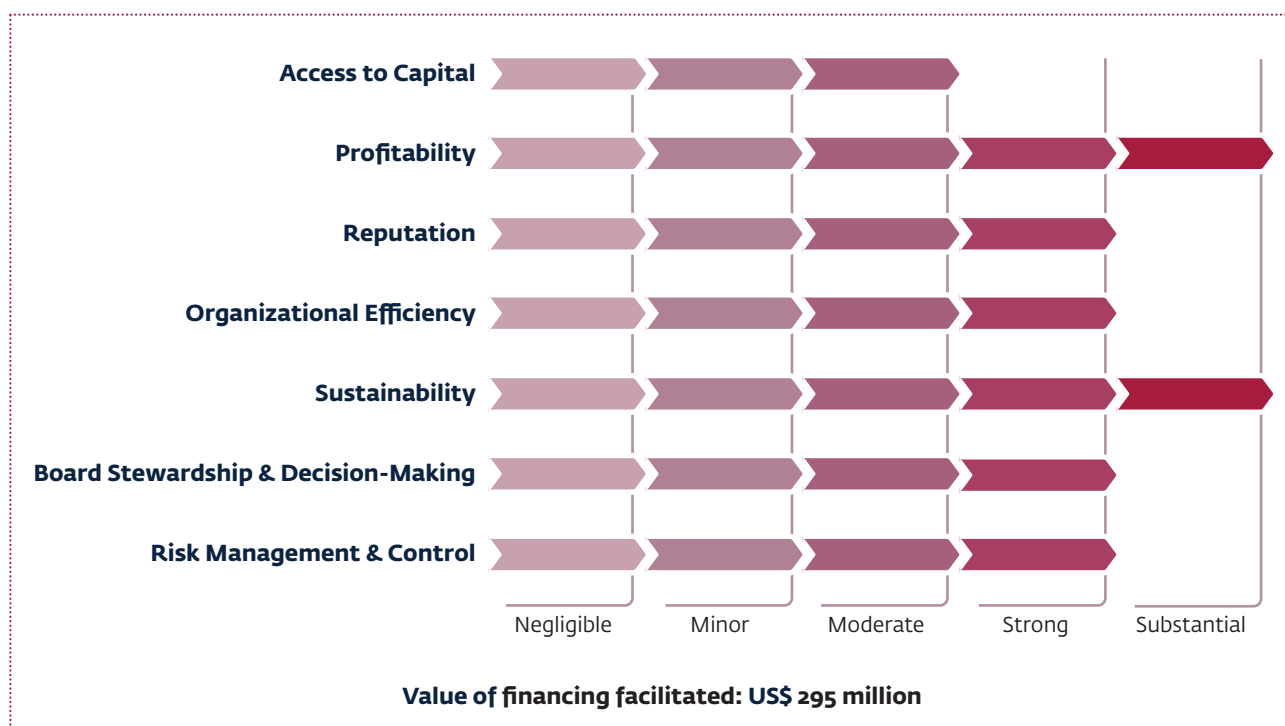
Reputation

Blue Bird's already strong reputation has been reinforced by demonstrating its commitment to international corporate governance best practices. Strong and transparent governance practices have also bolstered the Company's reputation and image as the best in class, thus allowing Blue Bird to attract highly qualified professionals in a market where competition for talent is fierce.

Transparency

The Company's disclosure practices have improved substantially, making Blue Bird one of the most transparent companies in the Indonesian market. In 2017, Blue Bird received the Indonesia Corporate Secretary Award from Warta Ekonomi magazine. This award was given to companies that have implemented good corporate governance practices and are committed to transparency, accountability, responsibility, independence, and fairness.

IMPACT SCORECARD





BUSINESS	Active investment holding company in Southeast Asia focused on early and growth stage companies, with an emphasis on sectors that support Indonesian economic development.
LOCATION	Indonesia
SECTOR	Financial sector (focused on natural resources, infrastructure, and consumer products and services)
2016 NET PROFIT	US\$ 453 million
TYPE	Publicly Traded (IDX)
# EMPLOYEES	52 (Source: 2016 Annual Report)
# PORTFOLIO COMPANIES	22 operating companies, 11 Publicly Listed +20,000 employees (Source: company website)
IFC ASSESSMENT DATE	December 2013

"Our commitment to corporate governance is not merely to support our own growth and ensure the long-term sustainability of our business. We want to set an example for our investee companies. We also replicate key corporate governance principles and changes at our investee companies. By implementing IFC's recommendations, we have new insights into the key role played by corporate governance as we pursue new investment opportunities and help catalyze corporate governance changes at our investee companies."

Mr. Jerry Ngo, Independent Director and Chief Financial Officer

Saratoga Investama Sedaya is a leading active investment company headquartered in Jakarta, Indonesia. The Company boasts a Net Asset Value of over US\$ 1.4 billion and directly employs 52 people. Founded in 1998, Saratoga takes an active role in managing its investee companies with a blended focus on promising early and growth stage companies, special situation opportunities, as well as blue chip sector leaders. Investments are targeted on sectors that support Indonesian economic development, including natural resources (50%), infrastructure (39%), and consumer products and services (11%). Saratoga has amassed a portfolio of 22 companies with over 20,000 employees with a goal of actively managing these investments and growing them into listed companies.

Saratoga was listed on the IDX in 2013 and it currently has a market capitalization of US\$ 717 million (Reuters, March 19, 2017). The Company formally launched its CG Code and Code of Conduct in June 2014. Saratoga is dedicated to exercising the principles of good corporate governance across all of its operating units and believes that this will enhance performance, increase investor trust, improve communications, and protect the interests of all stakeholders.

WHY CHANGE?

Saratoga's founders desired to be recognized as a market leader in the implementation of good CG, but they realized that the Company first needed a proper governance framework. Since going public in 2013, Saratoga's primary focus was to ensure compliance with local listing requirements. The founders acknowledged that changes were needed not only to meet Indonesian capital market regulations, but to optimize

the Company's current performance and further prepare the organization for continued growth. To drive more efficient decision making structures and address other challenges that impeded progress, the roles and responsibilities of the BoC and BoD needed to be documented and formalized. Additionally, Saratoga's Internal Audit and Risk Management capacity warranted strengthening and policies to manage conflicts of interest, insider trading, and RPT's needed to be developed and enforced. Leadership was committed to ensuring that its governance practices were in line with market expectations.

WHAT DID THEY CHANGE?

In October 2013, IFC conducted a CG Assessment to help Saratoga improve its governance structure and practices following its recent listing on the IDX. The CG framework was evaluated for gaps between actual practices and requirements for listed companies in Indonesia. In the last two years, the Company made great strides in improving its CG practices through activities such as finalizing the BoC and BoD Charters, amending the Nomination and Remuneration Committee Charter and the Audit Committee Charter, and updating the Investment Committee Charter to comply with new OJK regulations. Saratoga established Internal Audit and Risk Management units shortly after its public listing. A robust Investor Relations (IR) Unit was set up in 2015 to provide public access to the Company's information via an IR section on the website. A Code of Conduct, which included related party transaction and whistleblower policies, was adopted in 2014. The IPO was a key catalyst that motivated Saratoga to revamp its CG policies and build a CG Code on par with international standards and regional best practices.

SUMMARY OF KEY CHANGES

	KEY CHALLENGES	KEY CHANGES
Commitment to Corporate Governance	<p>The founders, members of the BoC and BoD, and senior executives were committed to good CG. The will to improve CG practices was evident, however even after the IPO, the Company still needed to put in place more formal governance structures and processes, develop a CG Code and Code of Conduct, and build a professional CG framework.</p>	<p>Developed a CG framework with active support from the BoC and Corporate Secretary. Created a CG Code/Manual which outlined the Company's principles of governance practices. Codified principles of the BoC and BoD and disclosed them to shareholders, the public, and to staff. A Code of Conduct was also developed.</p>
Board Effectiveness	<p>Composition: The BoD had 4 Directors. BoC size was appropriate with 5 Commissioners (2 independent), however the balance of skills required enhancement.</p> <p>Structure: Lack of clarity as to the respective roles of the BoC, BoD, and management. No annual board plan to clarify all areas of responsibility. There were three Committees: Audit, Nomination and Remuneration, and Investment. No formal BoC or BoD charters. No TORs for the roles of Commissioners and Directors as well as the scope of work of individual Committee members.</p> <p>Investment Committee: The Committee was under the authority of the BoD. The BoC delegated its authority to the President Commissioner, so there was an unclear delineation of authority between the BoC and BoD. Questionable whether investment decisions taken by the Committee were in line with the RPT policy and that risks associated with investing in new ventures were considered by the BoC.</p> <p>Procedures and Corporate Secretary: Informal working procedures, especially for BoC meetings. Members of the BoD also attended BoC meetings. Needed to formally and comprehensively document board minutes and publish outcomes. As part of the listing requirements, hired a Corporate Secretary with strong legal background yet still lacked formal TOR or clarity of reporting lines.</p> <p>Evaluation: No formal individual evaluation process or a process for evaluating BoC members as a group. No objective setting process to establish key performance indicators for Directors.</p>	<p>Composition: Although the BoC did not revise its composition, the BoC successfully oversaw the implementation of significant corporate governance changes within the Company. In 2015, the Commissioners participated in an external CG training ("Going Beyond External Compliance").</p> <p>Structure: Defined and documented the roles and responsibilities of the BoC and BoD in the CG Manual. Developed respective charters to clarify the segregation of duties, including TORs for Commissioners and Directors. Developed an annual board plan to ensure all areas of responsibility were worked into BoC agendas.</p> <p>Investment Committee: Made modifications in the Investment Policy within the Investment Charter. Decisions required unanimous agreement of all members and an acknowledgement from the President Commissioner, as appointed by the BoC to supervise the Investment Committee. Authorized the Investment Committee to regularly report its activities during BoC meetings. The BoC, through the Audit Committee, periodically reviews the decisions taken by the Investment Committee to ensure alignment with the Investment Policy.</p> <p>Procedures and Corporate Secretary: Documented board meeting procedures in the CG Manual, including provisions on a formal agenda and advance briefing materials. Regular BoC meetings held according to annual schedule. Several BoC meetings scheduled to be followed by joint meetings with the BoD. Developed TOR to clarify the scope of work of the Corporate Secretary, who reports directly to the President Director. The Corporate Secretary attended</p>

SUMMARY OF KEY CHANGES

	KEY CHALLENGES	KEY CHANGES
Board Effectiveness	<p>Succession Planning: Informal succession plan in place involving the top leadership position in Saratoga, and each BoD member identified his/her own potential successors. Nomination and Remuneration Committee did not formally develop a succession plan for senior management or a succession plan strategy to nurture internal talent.</p>	<p>competence development programs in financial management and IFC's Master Program for Corporate Secretary Training.</p> <p>Evaluation: Criteria for evaluations more clearly documented and linked to the defined roles of the BoC in the CG Manual, Board Charter, and the Commissioner's TOR. Remuneration for BoC members based on the performance of the BoC. The Nomination and Remuneration Committee mandated to determine the remuneration of Commissioners. BoD members' remuneration was based on the Company's performance against budget, business targets, and industry benchmarks.</p> <p>Succession Planning: As part of the HR program, Saratoga developed succession and talent management plans for members of the BoC, BoD, and strategic positions within senior management which are formally overseen by the Nomination and Remuneration Committee.</p>
Management Control	<p>Structure: As a public company, Saratoga still needed to establish its Internal Audit function and formalize its planning, monitoring, and risk management processes.</p> <p>Risk Management: Business and investment risk function embedded in scope of Investment Committee and its pre-investment process. No systematic, enterprise-wide risk management framework that encompasses its portfolio companies. No risk management system documented or approved by the BoC and BoD.</p> <p>Internal Audit: Compliance driven as required by the capital market regulators. The head of Internal Audit needed to establish and formalize the internal audit review process, procedures, and work plans. The staffing capacity needed to be improved.</p> <p>Compliance: The role was handled by the legal department and Corporate Secretary. No whistleblower policy or system in place in either the holding or portfolio companies.</p>	<p>Structure: Established an Internal Audit Unit and hired a head of Internal Audit.</p> <p>Risk Management: Established a Risk Management Unit (RMU), integrated into the CG assurance alongside the Internal Audit and Compliance units. RMU's role is to identify, assess, manage, and monitor risks with the BoD and business unit heads. Risk culture is more closely embedded within Saratoga. BoD was active in implementation of risk management while Audit Committee oversaw the RMU and escalated issues to the BoC.</p> <p>Internal Audit: Formalized the role of the Internal Audit Unit in the Internal Audit Charter. The Internal Audit Unit expanded to include a Head and Senior Officer directly accountable to the President Director with close ties to the Audit Committee to provide assurance to the BoD. Cooperated with internal audit throughout investee companies and formulated an annual work plan which was approved by the BoD and Audit Committee. Auditors received structured and continuous training.</p>

SUMMARY OF KEY CHANGES

	KEY CHALLENGES	KEY CHANGES
Management Control		<p>Compliance: The Audit Committee was responsible for compliance with applicable internal and external regulations. Established an official mechanism for whistleblowers to report misconduct as defined in the CG Code and Code of Conduct of the Company.</p>
Disclosure and Transparency	<p>Public Disclosures: Did not disclose CG Manual, Code of Ethics, or relevant governance related policies on the website or to shareholders.</p> <p>Conflicts of Interest/RPTs: No policy or mechanism to deal with conflicts of interest, insider trading, and issues with RPTs.</p>	<p>Public Disclosures: Disclosed all relevant CG specific materials on the website.</p> <p>Conflicts of Interest/RPTs: Developed Code of Conduct that includes conflict of interest, insider trading, related party transactions, and whistle-blowing policies.</p>
Shareholder and Stakeholder Relations	<p>Shareholder Protection: No shareholder relations function to ensure equitable treatment of shareholders. Needed to improve its shareholders' meeting policy.</p>	<p>Shareholder Protection: Formally established and improved the Company's policy and practices on treatment of shareholders, particularly minority shareholders. Enhanced shareholder meetings by formalizing the meeting notification and organization of the annual GMS (e.g., notification time, meeting, agenda, meeting papers, representation, voting mechanisms, proxies, etc.).</p>

SARATOGA REPORTED THE FOLLOWING IMPACTS FOUR YEARS AFTER EMBARKING ON THE CHANGES:

Access to Capital

CG policies implemented by Saratoga have had a strong impact on its ability to access capital, providing a one percent saving in the cost of capital annually, improving its credit score, and providing opportunities to diversify its funding sources.

Corporate Governance Catalyst

Saratoga has replicated the Company's CG structures and policies in its investee companies, moving from a CG Champion to a CG Catalyst. Strong and transparent governance structures both within Saratoga and its portfolio companies have yielded consistent profits and maximized shareholder value.

Organizational Efficiency

The adoption of various CG policies has improved Saratoga's organizational efficiency and contributes to effective decision making. The Company reported improved clarity in roles and responsibilities, which allows the Company to adopt a lean and efficient structure unburdened by many layers of bureaucracy.

Risk Management

Risk management has improved significantly following the establishment of the Risk Management Unit. The Unit, under the supervision of the Audit Committee, regularly identifies and reviews key risks to the business and appoints a key risk champion for each respective department, thereby building an overall strong risk awareness and risk culture.

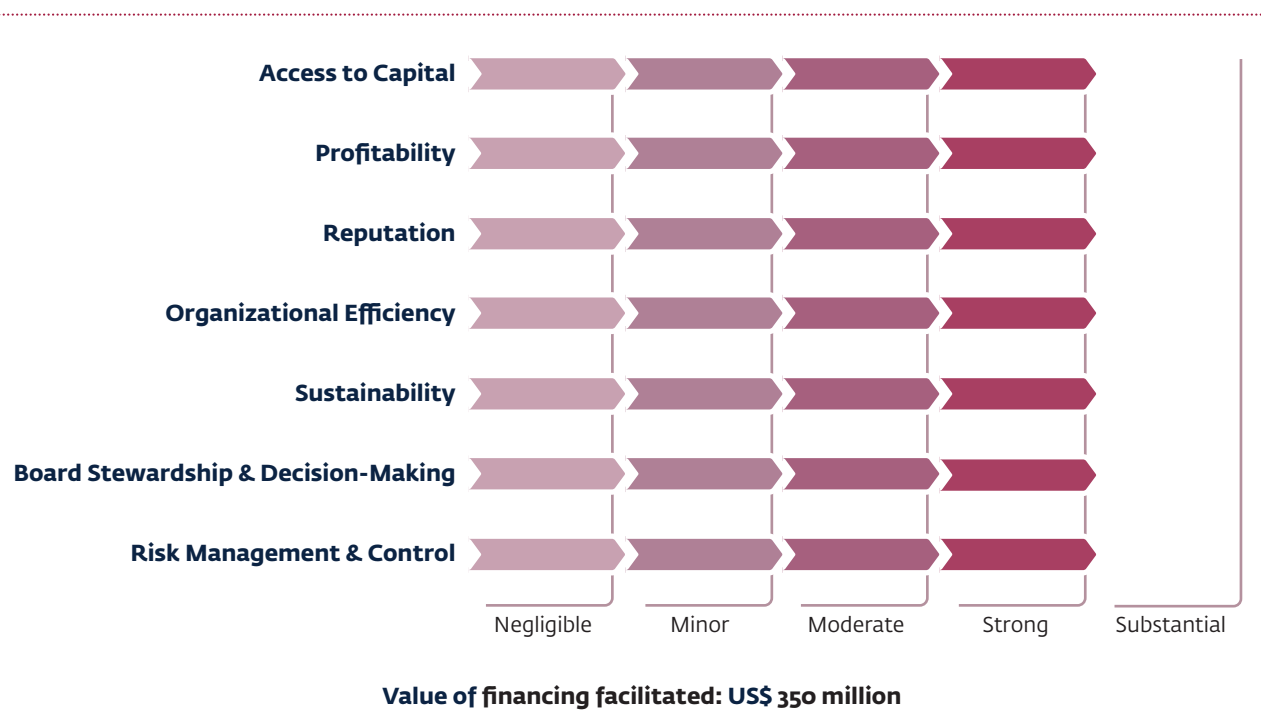
Internal Audit

Saratoga's Internal Audit Unit plays a significant role in identifying and conducting high risk audits and pressure points within its portfolio companies, thereby ensuring the effectiveness of internal controls and the control environment throughout the Group.

Reputation

The implementation of corporate governance changes has built greater trust, confidence, and positive perception that inspired market confidence. Saratoga is consistently perceived as a reliable and responsible business with solid corporate governance structure and practices by investors and other stakeholders.

IMPACT SCORECARD



About IFC Corporate Governance Group

The Group brings together staff from investment and advisory operations into a single, global team. This unified team advises on all aspects of corporate governance and offers targeted client services in areas such as increasing board effectiveness, improving the control environment, and family businesses governance. The Group also helps support corporate governance improvements and reform efforts in emerging markets and developing countries, while leveraging and integrating knowledge tools, expertise, and networks at the global and regional levels.

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