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AGENCY THEORY PERSPECTIVE IN IMPLEMENTATION OF CORPORATE GOVERNANCE

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Abstract

The spread of a delegation of authority in organization will be open to thr attitude of the self opportunities manager or parties-parties involved in the interest of the organization and ultimately lead to agency problem that arise because of thr conflict of interest between the agent and the principal. Agency problem that was allowed to happen would be difficult for the organization to learn and change. In other word , organization need corporate governance as a controlling mechanism (disciplinary forces) are more effective to align the interest of principal and agen . In Addition , corporate governance is required as a consequence of the separation of management a functions to the owner. This study tried to do a study of implementation of corporation governance by using agency theory prepective. In other word, the agency prespective is the basis used understand corporate governance. Agency theory is directed to overcoming problems that can occur in agency relationship. a) the existence of conflict of interest between the principal to the agent ; b) the agent tried to avoid the risk ;c) the behavior of agent that are difficult to monitor

Keywords*: Agency theory, corporate governance, organization.*

INTRODUCTION

Spread delegation of authority in an organization will open up opportunities for the oppurtunis stance on self-manager (manager) or other parties involved in the interests of the organization and ultimately lead to agency problems that arise because of the conflict of interest between the agent and the principal. Agency problem that was allowed to happen would be difficult for the organization to learn and change. For that business organizations of any required effort digging and finding a clear model to be able to get out of the confines of the model of bureaucratic institutions, poor innovation, transparency and accountability in other words corporate governance required by the organization any business as a mechanism of control (disciplinary forces) is more effective to align interest of the principal to the agent. In addition, corporate governance is required as a consequence of the separation of management functions to the owner.

Corporate governance in an organization based on the conception presented by Berten that corporate-owned company is not only in itself but also applicable to all organizations that are legal

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entities. Being a fundamental issue when the organization is suddenly build a model of corporate governance without first raised fundamental issues about the problems they experienced agency relationship. Based on research on an organization in the form of corporate governance PTN find relationships between actors was not effective and was only procedural compliance. Implementation of the principles of corporate governance are not going well, it was marked by a variety of issues pertaining to the separation of responsibilities between actors, and the potential emergence of agency problems.

The empirical data above reveal that the issue of the behavior of actors in the agency relationship determines the implementation of corporate governance, so that the principles of corporate governance as a guide (guidelines) can not run because of a conflict of interest between the actors and theoretically actor in the organization always maximize usability and pursue options probably the best self-interest but not for the benefit of the organization.

Based on empirical data and information on this study tried to study the implementation of corporate governance by using agency theory perspective. In other words, the agency's perspective is the basis used to understand corporate governance. The term agency relationship, the approach of the agency or principal-agent relationships are used interchangeably to describe the many and various functional and contractual relationship between principal and agent.

Agency Theory seeks to answer the problem of agency if there is a conflict of interest between the agent with the principal due for parties - parties that cooperate have different purposes. In particular the agency theory discuss about their agency relationships, in which a particular party (the principal) delegate work to another party (the agent).

Agency theory is directed to solve problems - problems that can occur in an agency relationship, a) the existence of a conflict of interest between principal with the agent, the problem of principal-agent by Killick, appearing when maximizing the utility function of more than one party requires a form of cooperative action and when the function of the target of the different parties. This problem needs to be principal for designing contracts that provide added value or compensation to agents in adjusting the interest of an agent to meet the interests of the principal. Principal contract with an agent can bring the benefit of both. b) agent trying to avoid risks. Barney and Hesterly opinion states that the agency relationship will occur if one of the parties in the transaction (principal) delegating authority to other parties (agent) and the principal's welfare is affected by the agent. Problems kegenan will appear with the possibility of opportunistic behavior on the part of agents who work for or against the principal. and c) the behavior of agents that are difficult to monitor. The results of the Bonazi and Islam, said the agency theory can be used to solve the problem of monitoring agents. Source agency problems by Arrow is the moral hazard and adverse selection. Moral hazard

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has to do with the costs incurred by the principal to protect the interests of the principal of the decision - the decision agent as assumption that the agent has more information than the principal.

Agency theory guided by several assumptions. Assumptions about human nature emphasizes that people always put the interests of itself (self-interest), always sought to avoid the risk (risk aversion) and humans are considered to have limited rationality (bounded rasionality). Assumptions about the organization, the organization is always considered a conflict of interest between the parties concerned, the existence of asymmetric information (asymmetric information) between the principal with the agent, and efficiency as criteria for effectiveness. Assumptions information is that information as a commodity that can be traded (information as a purchasable commondity).

To avoid this problem needs to be built attempts to reduce the possibility that the agent will be undermined by focusing direction around an important function in the corporation is monitoring agency through a contract that describes in detail the relationship the principal to the agent. (Fleisher, Hasard & Clipper, 1998; Minzberg, 1983; Waldo, 1985).

Agency relationship is based on agency theory in the development of a broader response as seen better reflect the realities and corporate management must be monitored and controlled to ensure that the management is done with full adherence to the rules and regulations. Despite these efforts lead agency cost, which caused their agency problems agency problem in terms of organization theory marked the discrepancy or difference between the principal to the agent.

Thus the agency theory has single claim that is how the agency problem can be solved. This paper will focus on the agency problem consisting of, a) the existence of a conflict of interest between the principal agent, b) agents who try to avoid risk, and c) the behavior of agents that are difficult to monitor. ,

The study was selected based on several reasons. Theoretically, the first author interested in the concept of corporate proposals that can be used within the profit and non-profit organizations, so that on the basis that the author would like to see the implementation of corporate governance with the perspective of agency theory. Second, the author would like to donate pmikiran understand thoroughly how well the agency problems stem from the assumption of man (risk aversion), assuming the organization (goal conflict) as well as on assumptions information.

LITERATURE REVIEW

Agency Theory

Agency theory (the theory of agency) is basically one issue or subject of discussion in the theory of organization (organization theory) as it relates to aspects and issues of control (control) in modern

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organizations. Agency theory emerged after the phenomenon of separation of ownership to the management company are everywhere, especially in the large modern enterprise.

Specifically, the agency theory will be directed primarily to the explanation of the agency relationship (agency relationship) that occurs when one party (principal) to delegate work to another party (agent) who will carry out the work. Relations agency (agency relationship) is created between principal and agent is a major concern of agency theory. Hacth deliver:

> "…… the relationship between owners (called principals) and managers (called agents) is the central concern of agency theory … Agency theory focuses on ways of controlling the self serving behavior of agents to assure that the interest of the principals are protected."

The opinions above confirms that the principal is the owner or shareholder of the company (shareholders) and the so-called agents are members of the company's management team. Furthermore, the focus of agency theory also advanced by Eisenhardt, as follows:

> "……Agency Theory is concerned with resolving two problem s that can occur in agency relationship . The first is the ' agency problem ' that arises when (a) the desires or goals of the principal and agent conflict and (b) it is difficult or expensive for the orincipal verify what the agent actually doing. The problem here is that the principal cannot verify that the agent has behaved appropriately. The second is the 'problem of risk sharing ' that arises when the principal and agent have different attitudes toward risk. The problem here is the principal and the agent may prefer different actions because of the different risk preferences ."

From both the above opinion is clear that the agency theory is emphasized to give the answer of what things are going to happen when the management of the company handed over to the agent by the shareholder (principal). Or in other words, agency theory has emerged as an approach used to analyze and resolve the problems in the agency (agency problem) arising from conflicts of interest between the agent and the principal (conflict of interest). According to the agency theory Hunger Wheelen and prioritize analysis and attempt to solve two problems that occur in the relationship between the owner and the agent. First, the agency problems that arise if (a) the desire or purpose contrary owner and agent, or (b) proving that is actually done by the agent is difficult and costly for pemilik.Kedua, is a matter of joint risk increased if the owners and agents memliliki attitude different in the face of that risk. The problem will only increase if the shareholding spread.

The advent of modern enterprise management problems by Berle and Means presented by Fukuyama caused by the separation of ownership. The owner or principal safeguard the interests - the interests of the owner, but the appointed agents are often keen on impulse - incisive individual encouragement from the interest of the principal.

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According Sartono, (1996: xxv) agency problem is potential to occur in companies that large, because of the large companies are generally the manager has less than one hundred percent of the shares so that the proportion of ownership of the company by managers is relatively small and in fact it is not uncommon action manager instead of maximizing prosperity shareholders but rather enlarge the scale of the company by expanding or buying another company with its main motive is to improve the security of the position of manager of the threat of a takeover by another company.

Thus the agency problem is defined as the conflicts that arise between owners, employees and managers of the company due to the tendency of managers are more concerned with the objective of the company's goals. This fact allows to happen because in the act or make decisions the managers generally influenced and driven by two main motives, as quoted from the opinion Ross Donaldson

> "... .. Managers are influenced by twobasic underlying motivations: (1) Survival. Organizational survival means that management will always try to command sufficient resources to avoid the firm's going out of business. (2) Independent and self-sufficiency. This is freedom to make-decisions whitout encountering external parties or outside Depending on financial markets .... "

With regard to the explanations above, the agency theory in its analysis will be using a number of assumptions, some of them as expressed by Ariyoto following: (1) In the decision making across individuals may take decisions that benefit himself. because the agent who received authority from the principal will take the opportunity for its own account; (2) Individuals have a rational way of thinking so as to build up expectations that can not be, or an impact of the agency problem and the expected value of future prosperity. Therefore, the impact of the behavior of the other party's interests are directly related, can be incorporated into the calculation of the other parties in the supply.

Meanwhile, Eisenhardt classifying the assumptions underlying the agency theory assumptions into three groups, namely: assumptions relating to human, information and organization. A detailed explanation of the assumptions stated by Eisenhardt are as follows:

Assumptions about human beings: human beings are always working to pursue or the interests of itself (self-interest), always sought to avoid the risk (risk aversion) and humans are considered to have limited rationality (bounded rasionality).

Assumptions about the organization: the organization is always considered a conflict of interest between the parties with an interest in the organization, the existence of asymmetric information (information asymetri) of the principals with the agent, and efficiency as criteria for effectiveness.

Assumptions about the information: the information is regarded as a commodity that can be traded (information as a purchasable commondity).

Of various assumptions developed by the agency theory, it appears that the separation between the ownership of the company to the management company has direct and open up opportunities for the attitude of 'opportunistic' in self-managers or other parties in the company. The opinion was confirmed by Hatch deliver:

> "... Principals contract agents to act on their behalf Because they can not or do not want to be continuously present to protect Reviews their own interests. However, Because they are not present, they are open to opportunism by agents who do not perform fully Reviews their duties in a responsible fashion. "

In the strategic management literature, opportunistic stance on self-managers 'managerial opportunism' is an act or series of acts or behaviors that make a profit for their own interests in a way that sneaky or underhanded. Indeed, not all managers of the company will be 'opportunistic' but prevention efforts need to be done.

Based on the notion of agency theory, action or behavior manager (agent) that put its own interests can be prevented, restricted and controlled using a control mechanism (governance mechanism) which is usual in strategic management literature known as the corporate governance mechanism. Thus, the mechanism controlling the company needed in order to prevent irregularities actions or decisions made by the manager (agent) of the aims and interests of shareholders (principals).

Ross suggests there bahwasannya control tool (control devices) that can be used by shareholders in order to ensure the management act in accordance with the interests of shareholders, as follows: (1) Selection and determination of the members of the board of directors by shareholders (shareholders) through voting. (2) Contracting with management and compensation arrangements so that management has the urge to pursue or achieve the objectives of the shareholders. (3) The return of the company by the other party, if the performance or the company's stock price fell too low. This is commonly known as isitilah take over. In the upper-level managers to take over the (top management) of the acquired entity may be dismissed from office. This will encourage the management to make decisions in accordance with the interests of shareholders. Kekwatiran takeover encourages managers to take actions that will maximize the stock price. (4) Competition in the managerial labor market might encourage managers to act in the best interests of shareholders. This will make it possible for the company to compensate managers based on the value that the manager creates.

Various efforts by the company to ensure that the agents (managers) do the thing or action is best for shareholders indeed trigger for the onset of a number of costs to be incurred by the company in order to minimize the 'agency problem'. These costs are known as agency costs (agency cost).

The emergence of agency cost based on the assumption that the manager will act opportunistically to take personal advantage before mememnuhi interests of shareholders. It will memnyebabkan agency cost that must be managed through a variety of mechanisms such as the provision of incentives and enforcement of the rules - the rules. The existence of agency cost will obviously cause the company's value can not be achieved to the fullest. Conflicts cause the agency cost more pointed when ownership is widely distributed that causes owners increasingly not exercise effective control of the managers who run the company.

According to Weston and Brigham (1994: 21), "agency cost is the cost associated with monitoring the actions of management in order to ensure that such action is consistent with the contract between managers, shareholders and creditors, which the agency cost could include: (1) expenditures for monitor management actions, (2) expenses for managing the organizational structure so that the possibility of a manager's behavior is undesirable getting smaller, and (3) the opportunity cost due to the loss of opportunity to earn income as a result of limited authority so that management can not take decisions in a timely manner, when it should be it can be done if the manager becomes the owner of the company. "

Another opinion, the cause of agency cost is delivered by Ross' agency cost as the amount of the expenditure of the cost of monitoring or monitoring carried out by the shareholders and the cost of intensive given to the managers. "In connection with the agency cost, then in the selection and application of principles good corporate governance (corporate governance) effective it would need to consider three aspects, namely concerning (1) the cost of management control (2) the cost of implementation of the means which are used for surveillance and (3) the benefits derived from surveillance conducted. Meanwhile, according to the Faithful, which referred to the agency cost is monitoring total on the activities of the manager can solve the agency problem, but this is costly and inefficient, while giving compensation in the form of shares to managers can reduce the agency problem, but still less effective because it is difficult to hiring managers in this way. Therefore, the best solution or optimal solution to address the agency problem is covering the surveillance measures with a compensation package.

Basically the idea of finding and determining the best solution for handling agency problem is then a basic idea or the starting point of emergence of the concept of good corporate governance in which the mechanisms of good corporate governance and effective according to the thinking of agency theory is seen as a method or system used to control and direct the behavior or actions of the manager (agent) to the achievement of the goals and interests of the shareholders (principals), wherein the system is arranged in such a way so as to minimize the agency cost.

2. The development concept of Corporate Governance

Corporate governance can basically be defined in a variety of perspectives and different contexts depending on the point where the concept of corporate governance will be discussed and analyzed. Often corporate governance experts explicitly define different but actually implicitly is the same. There are many definitions related to corporate governance.Turnbull defines corporate governance as follows: "Corporate governance describes all the influences affecting the institutional processes Including Reviews those for appointing the controlles and / or regulators, Involved in organizing the production and sale of good and services"

The definition Turnbull emphasizes how do governance by taking into account factors - factors that affect the organizational processes in order to produce and sell goods or jasa.Sementara the OECD defines corporate governance are as follows:

> Corporate governance is the system by the which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities of participants Among different in the corporation, such as the board, the managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs. By doing this, It also Provides the structure through the which the company objectives are set, and the means of Attaining Reviews those objectives and monitoring performance.

The OECD definition of corporate governance is consistent with Turnbull (1997) which both focus on how organizations can run properly in accordance with its intended purpose. While define corporate governance given by Syakhroza are as follows:

"Corporate governance is a system used Board for directing and controlling and supervising (directing, controlling and supervising) the management of the organization's resources in an efficient, effective, economical and productive (E3P) with the principle - the principle of transparent, accountable, responsibility, independence and fairness in order to achieve organizational goals ".

The definition of corporate governance Syakhroza conveyed expressly stated that corporate governance has the basic elements, namely: (1) focus on the board .Pengertian this element is the implementation of corporate governance relies heavily on the board, because the board has the responsibility to direct and control and supervise the use of resources organizations in order aligned with organizational goals that have been set. Steinberg and Bromilow expressly stated that corporate governance will be built in a company if the discount strategy and planning that can be implemented in a measured and from time to time. If the strategy and planning that is owned by the organization clearly measurable it will be easier for the board to measure and monitor the performance of the

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company on an ongoing basis. In the context of companies in Indonesia it is the Board is the board of commissioners and board of directors, it is as a consequence of the use of the Act - legislation that adheres persero dual board system. (2) The laws and regulations as a tool to direct and control. Products in establishing corporate governance law must be obeyed without disturbing the Board and management of the Company in achieving its objectives organisasi.Pengertian law on corporate governance is not only legal devices from outside the company but also the law made by the company. (3) The management of organizational resources efficiently , effective, economical and productive. (4) The achievement of organizational goals and (5) Strategic control, these elements confirms that corporate governance is a strategic instrument control companies.

According to Hitt, Ireland and Hoskisson, Corporate Governance is a system of relationships between the stakeholders that are used to define and control the strategic direction and corporate performance .. While Cadbury provide an understanding of corporate governance as follows:

> “ Corporate governance is concerned with holding the balance between economic and social goals and between individual and communal goals. The governance framework is there to encourage the eefficient use of resources and equally to require accountability for the stewardhip of those resources. The aim is to align as nearly as possible the interests of individuals, corporations and society.

Forum For Corporate Governance in Indonesia (FCGI) defines corporate governance is the set of rules that define the relationship between shareholders, management, creditors, government, employees and stakeholders internal and external others in connection with rights and obligations, or with words another system that directs and controls the company. The definition of corporate governance put forward Blair (1996) is the whole set of legal, cultural, and institutional arrangements that Determine what publicly- traded corporations can do, who control them, how that control is exercised, and how the risk and returns from activities they undertake are allocated.

While Monks and Minow, as quoted by Desai imposes limits on corporate governance are as follows: "Corporate governance is a relationship Among various of participants in Determining direction and performance of corporations." Limitation of corporate governance above clearly implied that corporate governance mechanisms are not only used for directing the actions of management in achieving the goals and interests of the shareholders, but also it is a system that regulates the relationship between the various stakeholders in the company ('stakeholders') that will be used to determine and control the performance and the company's strategic decisions.

Emphasis attention to other interested parties besides shareholders also visible on the opinions Initiative (2000: 20) which defines corporate governance from two different perspectives, namely as follows:

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> "... In a narrow perspective, 'corporate governance' is used in the context of economic management-micro (microeconomic management) and is defined as a mechanism of administrative governing the relations between the company's management, directors, shareholders and interest groups (stakeholders) that other. ... In this connection, the necessary key aspects in the 'good corporate governance' which include (1) transparency of corporate structure and operations, (2) accountability of managers, directors and commissioners to shareholders, and (3) the responsibility of the corporation to employees , creditors, suppliers, customers, local communities and other interest groups. In a broad perspective, 'corporate governance' is defined in terms of the extent to which the company has been operating in a way that is open and honest in order to strengthen the trust the public to the market mechanism, improve efficiency in the allocation of scarce resources in both the domestic and International level, strengthening the industrial structure and ultimately improve the prosperity and welfare of the community at large. "

Besides revealing the understanding of corporate governance from the perspective of broad and narrow, then the definition put forward by the Initiative also implied some key aspects of the criteria for the proper functioning of the system of good corporate governance in a company. Understanding corporate governance above basically almost have in common with the restrictions provided by Sheridan and Kendall, since the restriction of Sheridan and Kendall was also once revealed the criteria of corporate governance 'is good and effective. Sheridan and Kendall found:

Control of a good company is a control consisting of a system of structuring, operation and supervision of the company so as to achieve the following: (1) Meets objectives long-term strategy of the owners who once could survive consist of forming shareholder value or set market shares of the dominant, or retain technical leadership in chosen environment, or something else, but of course objectives are not will be the same for all organizations.(2) Consider and consider the interests of employees in the past, today and in the future, which is used to form the entire lifecycle including planning needs in the future, recruitment, training, work environment, procedures, termination and resignation, to take care of the pension. (3) Taking into account the needs of the environment and the local community, both in respect of the physical impact of the company's operations on the surrounding area as well as economic and cultural interaction with the local population. (4) Working to maintain a very good relationship with customers and suppliers, such as the problems of the quality of services provided, booking procedures are considered and account settlement procedures, and so on. (5) Maintain Proper compliance to the demands of applicable laws and regulations, with which the company carries out its activities.

Briefly, Sheridan and Kendall defines corporate governance as a system of structuring, operation and supervision of the company so that the company can meet all the demands of all

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interested parties (stakeholders) of the company. Meanwhile, the Forum for Corporate Governance in Indonesia provide restrictions on corporate governance as

A set of rules that define the relationship between shareholders, management, creditors, government, employees and stakeholders internal and external others in connection with rights and obligations, or in other words a system that directs and controls the company with the objective of creating value for the stakeholders.

While Pound confirmed that at its core 'corporate governance' not talking about power, but rather related to the search for ways to ensure decisions are made effectively. In order for the company's decision-making process can take place effectively, it is necessary collaborative relationship between management and the board of commissioners ('board of directors'). In this case, the board ('board of directors') is not merely act as watchdogs of the actions of directors (management) but also act as a 'partner' directors (management) in the decision-making process of the company.

Of the opinion Pound above shows that corporate governance is not only seen as the systems used to monitor and control the behavior or actions of the manager but also as a system that can ensure the creation process of effective decision-making by engaging or invite the participation of shareholders and members board in the decision-making process of the company. This means there has been a shift in emphasis from the definition of the concept of corporate governance, which is of the understanding that focuses on the activities of monitoring the behavior or actions of managers into understanding more emphasis on improvement in the decision-making process.

DISCUSSION

If the boundaries of the aforementioned corporate governance observed by the Agency Theory it will show the presence of some concept or basic elements contained within the limits of the corporate governance, namely: The concept of relationship and interest (relationship) is created between stakeholdesr or parties interested in the company's business affairs; The concept of controlling performed by the company (corporate control);

Both of the above concepts are elements that always exist in any conversation or discussion on corporate governance. Below will be explained one by one key concepts that exist within the confines of the corporate governance, as follows:

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a. Concepts Relations (Relationship) The Chick Among Stakeholders or Party Stakeholders in Corporate Business Affairs

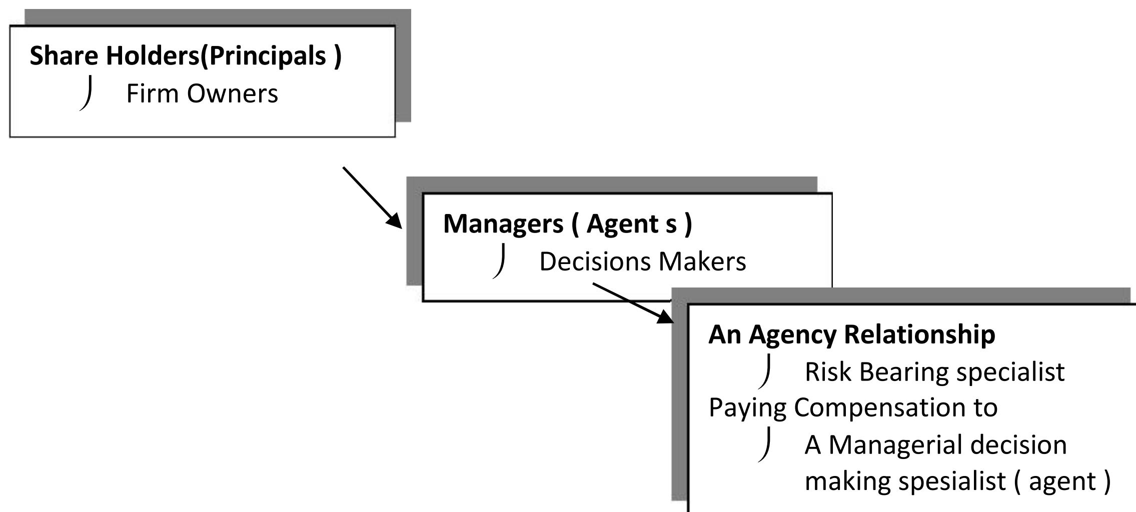
Elements or first draft contained within the limits of corporate governance that determines the effectiveness of the implementation of corporate governance in a company originating from the elements of the relationship (relationship) is created within the main parties interested in the company is a form of relationship known as 'agency relationship'

As mentioned implicitly in the previous section are essentially 'agency relationship' emerged due to the separation between the owner of the company (ownership) by the managers (also referred to as 'agents'). Godfrey and Hill, as cited by Hitt (1995: 4) states that

"Agency relationship exists when the owner of the company or shareholders to appoint a 'agents' or more as a party who is an expert in decision-making ('decision making specialist') to carry out a service ('servise'). Thus, the institutional relations ("agency relationship") that would arise if one delegate responsibility for making decisions on both parties to provide compensation. "

For more details, institutional relations ("agency relationship") between the owners of companies with these managers can be seen from the picture presented by Hitt following:

Figure: an agency relationship



Source: Hitt, Ireland, & Hoskison, 1995, p 35

Institutional relations ('agency relationship') may also be a relationship that is created between managers and their employees or between the consultant with his client. Hatch, adding bahwasannya 'agency theory' can digenalisir to explain the relationship between lower levels of management ('lower levels of management') with subordinates.

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b. Control Concept ducted by the Company

Corporate governance, as it has been disclosed in previous descriptions, basically one or supervisory control systems that can be used by companies in order to avoid or prevent the occurrence of opportunistic behavior and attitudes of the stakeholders'. The concept of supervision or control itself by Regar "It can be interpreted as an action to it that an activity carried out in accordance with the prescribed or judge whether what has been implemented as planned."

Meanwhile, Jensen and interpret Ruback control of the company ('corporate control') "As the right to control the management of the various resources of the company can be the right to appoint, dismiss and set the compensation of top-level managers."

According to Pound, 2 (two) control model ('model of governance') is a model which is known as 'the managed corporation' and a model called the governed corporation. Pound further explains that "today the implementation of control model in the form of 'the managed corporation' is not appropriate and right again, because most of the company's failure did not come from an imbalance of power, but comes from a failure in the decision-making process. "This is consistent with the notion of 'corporate governance' which emphasizes on identifying ways to ensure effective decision-making.

Model 'the managed corporation' is basically a control model that focuses on aspects of power. where, according to this model the 'senior managers' responsible for the leadership and decision-making. In the control model in the form of 'the governed corporation,' the emphasis of attention is on the aspects of the role and behavior. To know the differences of these two models can be seen in the following table:

Tabel
The managed corporation versus the governed corporation : boardroom paradigms and practices

The Managed Corporation Paradigm	*TheGoverned Corporation Paradigm*
The board, role is to hire , monitor and when necessary , replace managemen *Board Characteristics* ***Power sufficient to control the CEO and the evaluation proccess*** ***Independen to ensure that the CEO is honestly evaluated and that directors are not compromised by conflict or co-optewd by management*** ***Board orocedure that allow outside directors to evaluate managers dispassionately and effectively***	***The board's role to foster effectivedecisions and reverse failed policies*** *Board Characteristics* ***Expertise sufficient to allow the board to add value to the decision making process*** ***Incentives to ensure that the board is committed to creating corporate value*** ***Procedures that foster open debate and keep board members informed and attuned to the shareholders concern***

Policies ***Separate the CEO and chair (or lead outside director)*** ***Board meetings without CEO present*** ***Committte of independent directors to evaluate the CEO*** ***Independent financial and legal advisors to outside directors*** ***Explicit yardsticks for judging the CEO ‘s performance***	*Policies* ***Required areas of expertise that must be represented on the bord , such as core industry and finance*** ***Minimum time commitment of 25 days*** ***Large option packages for directors*** ***Designated critic to question new policy proposals*** ***Regular meetings with large shareholders*** ***Board members free to request information from any employee***

Source: Pound (2000: 83)

Disclosure of 'corporate governance' as a surveillance system is also reflected on the explanation Keasey and Wright as follows:

> "There is Considerable debate about what actually constitutes corporate governance but its key elements concern the enhancement of corporate performance via the supervision, or monitoring of manafement performance and ensuring the accountability of management to shareholders and other stakeholders."

Explanation of Keasey and Wright above is strengthened with the opinion of Mills which confirms that corporate governance is a system in which companies are controlled and supervised. Indeed, what has been stated above as well have addressed the third element contained in the definition of corporate governance that is the element of control or supervision. Corporate governance mechanism itself essentially can be categorized into one system or the monitoring mechanism contained in the context of the theory of supervision were modern (modern control theory), because the theories of supervisory modern focus on a mechanism for monitoring behavior to ensure that the self-interest can be reduced and the organization's interests can be served through a variety of activities going on in the organization.

Basically, in order to ensure an implementation of 'corporate governance' that is effective, then the required elements -unsur of 'corporate governance' .According Organization of Economic.

CONCLUSION

Cooperation and Development or OECD is actually no single model for the implementation of 'corporate governance', Implementation of 'corporate governance' itself on substantially influenced by many factors that are specific such as: market structure, system of laws, regulations, traditions, cultural values and the values of society

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