Importance and Benefit of Application of Governance Risk and Compliance Principle

Bambang Leo Handoko, Ignatius Edward Riantono, Engelwati Gani

Accounting Department, Faculty of Economics and Communication, Bina Nusantara University, Indonesia, 11480

Corresponding Author: Bambang Leo Handoko
Email: bambang.handoko@binus.edu

ABSTRACT

Today the concept of governance risk and compliance (GRC) has become a necessity, however, in its implementation; there are still many GRC companies that consider it a burden. Our research aims to broaden the insights of businesspeople, regarding how to integrate and manage the benefits of implementing governance risk and compliance. The research method in this research is qualitative research. We use primary data from interviews with informants, besides that we also use secondary data in the form of published research papers and reports related to GRC. The results show that if the company is able to implement GRC effectively, it will have an impact on the company, including being able to predict and analyze possible risks in the future.

INTRODUCTION

Companies, in general, face governance problems. Usually, someone in the company is responsible for making rules and policies for employees and stakeholders. Small and large companies need broad based units or functions in making rules and policies. Therefore all companies need an effective and efficient governance process (Magnusson & Chou, 2010). Along with the changing times, companies of various sizes in various locations are faced with an increasing number of regulations and procedures, both from the local level to the international level. On the other hand, companies are required to comply with all applicable regulations (laws and regulations) and procedures. In running its business, companies always face risks. Examples of risks faced by companies such as the company may violate one of the applicable regulations, governance established by the company did not achieve the desired results, and the company faces events beyond the company’s control (such as weather / fire factors). With these risks, a company needs risk management in running its business; in the acronym GRC (Spanaki & Papazafeiropoulou, 2016), G stands for Governance. Governance means managing the business, ensuring that the company’s performance is in accordance with company regulations and BOD decisions. Governance also means what the company must do (in accordance with stakeholder expectations) so that every employee knows the direction of the company’s operations. Meanwhile, R stands for Risk. Everything a company does is risky. Risk is the company’s way of protecting the value of existing assets and creating value by expanding the company strategically or adding new products/services. C stands for Compliance. Compliance is defined as compliance with laws and regulations relating to business and society. Often, C is defined as compliance’s control (Kerstin, Simone, Nicole, & Lehner, 2014). Compliance’s control means control activities to ensure that the company complies with applicable laws and regulations. Examples: monitoring factory emissions or making sure imported and exported paper is well structured, creating effective internal accounting controls and implementing regulations like Sarbanes-Oxley effectively (Anand, 2012). GRC does not only mean what must be done to take care of the business, but a paradigm to help companies develop in a better direction.

Many companies do not consider GRC as a single principle. Companies often regulate governance, risk and compliance as separate areas, not as a single principle (Kerstin et al., 2014). For example, companies are obliged to comply with applicable regulations, but companies are not used to combining them with GRC principles. In fact, GRC is a new way for companies to integrate aspects of Governance, Risk and Compliance in business.

LITERATURE REVIEW

GOVERNANCE RISK COMPLIANCE

The three GRC principles have a sustainable and interrelated relationship, all of which have the same important position (Papazafeiropoulou & Spanaki, 2016). Corporate / enterprise governance is a rule, process, or law by which business is run, regulated, and controlled. The term also refers to internal factors determined by officers, stockholders, or written documents and rules as well as the basic objectives of the company, as well as external parties such as consumers, clients, and government regulations.

The image above is GRC Concepts. Aspects of GRC concepts are strongly tied to one another (Clayton UTZ, 2013). In the picture above, it is indicated that: internal policies are the main supporting factors for governance, external regulations are the main factor supporting compliance, enterprise’s risk appetite is the main factor supporting risk management.

Keywords: Management, enterprise, regulation, compliance, risk, governance

Correspondence: Bambang Leo Handoko
Accounting Department, Faculty of Economic and Communication, Bina Nusantara University, Indonesia, 11480
Email: bambang.handoko@binus.edu
Inside the triangle, there are 4 GRC components which is: strategy, effective processes, technology, people. The right part of the triangle shows that companies need management attention and support, correct ethical behaviour, organizational efficiency, and improved effectiveness to support their business operations.

ENTERPRISE GOVERNANCE
In terms of company operations, we can define enterprise governance as the accountability and implementation that is carried out by the board, executive management, and all management functions with the aim of providing strategic direction, ensuring that company goals are achieved, ensuring that risks are properly managed, and verifying that resources used responsibly (Curtis & Carey, 2012). Governance refers to the process of developing rules and procedures at all levels within the company, communicating these rules to relevant stakeholders, overseeing the implementation of these rules, and providing rewards and sanctions based on related performance or compliance with rules. Well-implemented and enforced governance principles produce a structure that will benefit all concerned parties by ensuring that companies comply with applicable ethical standards and best practices and formal laws (Lal Bhasin, 2013).

Currently, attention to corporate governance has increased due to high profile scandals that involve abuse of power, within the company and, in some cases, suspected criminal activity by company officials. The combination of effective governance rules includes provisions regarding civil and criminal charges against individuals who commit unethical / illegal acts on behalf of the company. The following is the concept of corporate governance with the executive group as the centre and axis of the rest and the related responsibilities for exercising control, strategic framework, performance, and accountability.

RISK MANAGEMENT CONCEPT OF GRC
Risk management must be part of the overall company culture, from the Broad of Directors, every senior officer, to the staff (covering the entire organizational structure from top to bottom). The following are four interrelated steps in an effective GRC process and corporate risk management (Spanaki & Papazafeiropoulou, 2016):

- Risk identification and analysis
- Develop risk management plans
- Implement strategies
- Risk monitoring and review

Research Type
This research is a qualitative research; in this study researchers used primary data and secondary data. Primary data obtained from interviews with resource persons who are experts in the fields of governance, risk and compliance. In this case we conducted interviews with members of an independent audit committee of a publicly listed company, where this resource person has experience in the GRC field. Meanwhile, for secondary data we get from literature study. We studied the literature from both books and preliminary research from journals and proceedings on the topics of governance, risk and compliance.

DATA ANALYSIS METHOD
The data analysis used in this research is qualitative analysis. We use the literature review and the results of the interviews and then present an explanatory account of how the implementation of governance risk and compliance in practice in publicly traded companies in Indonesia. We present the importance of governance risk.
RESEARCH RESULT

GRC and Enterprise Governance

Compliance is the process of complying with a set of guidelines and regulations that have been prepared by government agencies, standard setting groups, or internal company policies. Complying with these things is a challenge for the company because of the following issues: New regulations are often made; Example: The Environmental Protection Agency in the United States regularly issues new regulations that have a major impact on companies. The similar condition, Tax regulations in Indonesia; Companies must monitor these regulations continuously and determine which regulations apply to the company itself (Alisjahbana & Busch, 2017).

There are written regulations that are vague (unclear) and require their own interpretation. Example concerning road traffic and transportation, in this article, it is stated that road operators who do not immediately and properly repair damaged roads can be subject to criminal sanctions, but it does not explain who is meant by road operators and the institution does not directly mention the institution (Ibarra-Rojas, Delgado, Gieson, & Muñoz, 2015). So, in this case it is still vague as to who is responsible for running the road. This uncertainty could have an impact on the application of the article by law enforcers. The article cannot be implemented in the field in practice, or even law enforcers have to wait for a government regulation which regulates in more detail about the problem of road management. There is no agreement regarding best practices of compliance implementation. For example, there is a rule that every transaction must be accompanied by a receipt. However, each company can determine its own best practices. There are companies who think that a receipt does not need to be made if the transaction amount is less than how much amount or etc.

Many overlapping regulations; Harmonization in the formation of laws has a very important function. So, that in its implementation later there is no overlap of authority between one law and another. In other words, harmonization in the formation of laws aims to harmonize the rules contained in the content of the law (Ghafzan & O’Sullivan, 2013). If there is an overlap between one statutory material and another, there will be chaos in law enforcement. In addition, there is a “dualism” of law, which will confuse the law enforcement procedure itself. The Harmonization Process is carried out at any level, from the planning stage to the discussion stage. The level of discussion in question is the level of internal / interministerial discussions as well as the level of harmonization coordination held at the Ministry of Law and Human Rights. If the harmonization process has been carried out from the start, it is hoped that the harmonization coordination process at the Ministry of Law and Human Rights will be easier and will not take long. Constantly changing regulations; Regulatory agencies constantly change or reinterpret the rules they have created.

GRC and Enterprise Governance

Compliance is a continuous process, not just a one-time process. Compliance encourages the entire system made by the company to run well and be responsible for meeting various kinds of specific demands from its vertical market. Companies need to know and refer to laws and regulations that apply in general / cross-industry such as the Sarbanes-Oxley Act, Six Sigma, or ISO 9000. The broader and more complex laws and regulations governing cause challenges for companies all the time (Magnusson & Chou, 2016). To face this challenge, companies need to approach GRC principles to create a strategic view that can help achieve any need for compliance in order to create real benefits for the company from all activities it does, operations, investment and funding. There are five scopes of compliance that affect various aspects of the company, namely: strategy, organization, processes, applications and data, and facilities. Each scope of compliance has issues that must be considered by the company in an effort to be able to build a scope and approach to compliance. This is also called the Scope of Compliance Architectures Consideration.

Strategy; Determining the strategy, the company must follow the relevant regulations at this time, especially in the locations and areas where the company is engaged. For example regulations compliance sustainability must be an integral part of all compliance strategies. Organization; Organizational structure of the company must be built to meet the specific requirements of each regulation. For example, a company must have an audit committee that influences its organizational structure as a follow-up to compliance with the Sarbanes-Oxley Act regulations. Process; Key processes must be documented and implemented. An audit or review must be carried out to ensure that the documented process has been used effectively to meet the demands or needs of the regulations. For example in a manufacturing company, there are ISO provisions for the products it makes. The company must make documentation regarding the company’s production system that has complied with the ISO provisions and it is necessary to conduct an audit or review whether the ISO provisions have actually been carried out by the company.

Applications and data; Applications must be designed, implemented, and tested continuously to support the demands of each regulation. Data must be properly protected and handled in accordance with applicable regulations. An example is customer data of a bank. It is stipulated that Banks are required to keep confidential information regarding their depositing customers and their deposits, except for Tax Purposes, Bank Receivables Settlement, Criminal and Civil Courts, and for the purposes of Exchange of Information between Bank (Plombeck, 1988). So, data protection must be done properly but still comply with laws and regulations for exempted matters. Facilities; Facilities must be designed and available to meet the demands of each regulation (for example, regulations regarding the Indirect Supervision (off-site) conducted by Bank Indonesia on Credit Information Management Institutions (LPIP) (Deloitte, 2019), (Onsite) and through analysis of reports, documents, data and / or other information (off-site). When a company can take a consistent approach to achieving a compliance system accompanied by supporting technology, the company will get the following benefits (Racz, Weippl, & Seufert, 2011):

1. GRC and Enterprise Governance

Reducing the total cost of ownership; Investments can be beneficial and be an advantage of various regulations. For example, many regulations specify in detail the requirements for document retention, which can be met with an investment in content and records in the management system. Flexibility; One of the difficulties of implementing a compliance system is when new regulations appear frequently and existing regulations change. So by using organization-wide compliance architecture, the company will adapt more quickly to these
changes because the first steps in realizing compliance have been managed centrally; Competitive Advantage; A broad and consistent compliance architecture can help a company better understand and control its business processes which helps it respond quickly and precisely to external and internal pressures. In addition, certain regulations also contain tangible benefits for businesses by reducing the minimum capital requirements that may occur.

**CONCLUSION AND SUGGESTION**

**CONCLUSION**

An effective GRC compliance process can help a company transform its business operations and have the insight and ability to make deeper predictions about its business processes when the company can meet the demands of applicable legal regulations. The main driver of business in question is the ability to manage asset information, demonstrate compliance with applicable legal obligations and regulations, reduce the risk of court proceedings, reduce storage and discovery costs, and demonstrate corporate accountability. So in order to realize effective risk management and COSO ERM processes, companies need to have strong governance and compliance processes with the aim of building an effective GRC program. Risk management must create value and become an integral part of the organizational process. Risk management must also be part of the decision-making process and must be tailored to each company in a systematic and structured manner so that it can explicitly show the uncertainties faced by the company. The risk management process must be dynamic, iterative, responsive to change, and can be continuously improved, means continual improvements and enhancements.

**SUGGESTION**

Future studies can use this research as a preliminary research. The next research can examine GRC also with a different approach, for example linking ERM with internal control. Future researchers can also investigate GRC from different points of view, for example its application in other countries. So, we can compare the results of our study with future studies.

**REFERENCES**