Rethinking of CG

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Rethinking of Corporate Governance

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Abstract

Corporate governance is regarded as an acceptable mechanism to prevent fraud in companies. However, corporation scandals still occur from year to year. This article tries to describe corporate governance from the emergence, the implementation and the underlying theories. As a result, the concept of corporate governance works stably in the framework of capitalism. This article gives predecessor analysis for further research to insert other fields such as philosophy and psychology in corporate governance

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1. Historical Background of Corporate Governance

Simple corporate governance is a system to direct and control a corporation (OECD, 2004). Meanwhile, good corporate governance has long been seen as the 'holy trinity'; they are rights of shareholder, transparency, and board accountability (Calder, 2008: 2). The term of corporate governance did not appear suddenly.

The downfall of the Roman Empire, until the beginning of age of enlightenment, marked the rise of entrepreneurialism, which was practiced more by baronial marauders and the Church than by commercially private business people (Calder, 2008:6). Their trading activity was carried out in a simple manner. However, it has already shown separation between the members and the Church. This fact was the reason behind the longer survival of the church through wealth development, an essential precursor to corporation nowadays. Since then, companies operating in fields with higher risks, which was impossible for individuals to do it, started to emerge.

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One of the early modern corporations is The Dutch East India Company. It was established in 1601 by the States General of the Netherlands (VOC). This company has the monopoly right to exploit Asia for 21 years. This company was successful, and it survived for some 200 years paying routine annual dividend†. This form of colonialism was imitated by Hudson Bay Company in the form of joint stock companies, which survived for about 100 years. In the 18th - 19th century, trading and financial expansion developed industrialization. There were many companies operating without a strong legal basis. This made the relationship between business owners become more complicated and more difficult. This condition led them to make rules. One of which was the Joint Stock Companies Act of 1844 in the UK. The regulation did not have the ability to protect the wealth of shareholders. There were many events where the bankruptcy of the company was followed by the bankruptcy of the owner. This condition continued until the liability of shareholders was limited, formally by the Limited Liability Act of 1855. Meanwhile, new companies only started to emerge in the United States in 1813. However, the companies grew more rapidly compared to those in the UK and Europe (Calder, 2008).

However, this improvement in economy was coupled by several downturns. Pergamon Press, Robert Maxwell as CEO, recorded higher earning when Pergamon was sold to Saul Steinberg (Leasco-US) in 1971 (Wearing, 2005). Rolls-Roys accumulated research expense made its assets overstated massively in 1971‡. London and County Securities Bank (L&C) in 1973§ did financial manipulation by Gerald Caplan, as CEO. This triggered Bob Tricker wrote an article, 'Perspective on Corporate Governance: Intellectual Influences in The Exercise of Corporate Governance' in 1983. He described corporate governance as relationship between top management, owners and other interested in the company (Calder, 2008: 10). Tricker then developed the idea of corporate governance in a book, 'Corporate Governance' in 1984, which got response from business, related to scandals that emerged continually in the 1980s. Michael Milken at Drexel Burnham (1976-1990) created competitive and aggressive culture that allowed employees to do unethical and illegal conduct. Securities violations, including insider trading and junk bond involved Milken and their employees (Meulbroek, 1992: 1666). Brian Burke, the prime minister of Western Australian, involved dealing business with Alan Bond and Laurie Connell, CEO WA Inc. in Australia (Brueckner, et.al. 2014). This suggested that there was something wrong with management. Businessmen began to concern in corporate governance for controlling company.

2. Corporate Governance Practices

2.1 Corporate Governance in US

The structure of the management of companies uses one board system, consisting executive director (company leader) and non-executive director (company supervisor). In one board system, according Daniri (2014: 24), there were many cases where non-executive director was not able to work independently and objectively in overseeing the company. This happened because his duties were often mixed up with managerial tasks of executive director. In addition, members of the non-executive director were dominated by parties from the outside of the company. Chief Executive Officer has a duty to lead executive director and non-executive director. Thus, CEO fulfils his responsibilities as the head of management and the supervisor at once. It means that the CEO has a tremendous influence and authority. Thus, deviations in the interest of certain parties (agency problem) are very likely to arise. One reason for the use of one-board system is adjustment to the goal of rapid economic growth (the need for quick investment decisions) so that companies can become multinational firms in different countries. However, the introduction of one board system that gives full powers to the CEO leads to corporate scandals, such as WorldCom and Enron.

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† Over period of some twenty years experiences (1602-1623), VOC had two key features of Modern Corporation, split between ownership-management and transferable shares. Inversely, the EIC (English East India Company) did not have it (Gelderblom, 20012: 29).

‡ This scandal affected accounting regulation to forbid the capitalisation and government policy to make Rolls-Royce Limited, privatisation under Margaret Thatcher government (Lazonick and Prencipe, 2005: 4).

§ This scandal indicated the weaknesses of banking auditor, Department of Trade, and subsequent changes in regulatory (Matthews, 2005).

Table 1, Institutions, Functions, Scandals of Corporate Governance (US)

Accounting		Government (Politics)		Other Legal System		Fraudulent statements	
Name	**Note**	**Name**	**Note**	**Name**	**Note**	**Name (y)**	**main players**
AICPA, it was AIA (1887)	provides to most relevant knowledge to certified public accountant, work with CIMA issuing CGMA	**US Congress**	SOX 2002 (US federal law), mandatory, force management transparency.	**COSO,** supporting by IMA, AAA, AICPA, IIA, and FEI, 1985.	Provides thought leadership on executive to organizational governance, business ethics, internal control, risk management, fraud, and financial reporting.	Enron, 2001 - - - WorldCom, 2002 Tyco, 2002	CEO and internal auditor - - - CEO CEO and CFO
APB (designed by AICPA), replaced CAP (1959-1973)	issued auditing, attestation, n quality control statements, standards and guidance to CPAs (SAS)	**SEC** (federal government), responsibility activities in securities markets (1933)	1. The Securities Act of 1933 and 1934 2. Sarbanes-Oxley Act 2002, etc.	**Professional Ethics Executive Committee (PEEC)**	Enforces the AICPA Code of professional conduct, monitoring and making revisions of rules.	HealthSouth, 2003 Freddie Mac, 2003	CEO - CEO, CFO, and Chairman
GASB (Governmental Accounting Standard Board), 1984.	GAAP for state and local governments	**FCPA** (SEC and Department of Justice), 1977	The Foreign Corrupt Practices Act of 1977 (accounting transparency 'under Act 1934' and bribery)			American Insurance Group (AIG), 2005 Lehman Brothers, 2008	CEO - - - CEO, and internal auditors
FASB (replaced AICPA APB), under SEC, 1973	Improves GAAP, standard for financial reporting for nongovernment .	Cases of FCPA	Siemen AG (2008) Marubeni Corp (2012) Smith & Nephew (2012) Bimet Inc. (2012) Marubeni Corp (2012) Tyco International Ltd (2014) Goodyear Tire and Rubber Company (2014)			Bernie Madoff, 2008	Chairman and accounting staff
PCAOB (replaced AICPA ASB, created by SOX 2002, (2002)	oversees independent audit reports (GAAS for public companies), (ASB for nonpublic)	**Federal Reserve System (1913).**	Responsible for monetary policy in US to help promote national economic goals. Issues bank regulation for private banks to balance between government and private interests.			Saytam, 2009 Dynegy, 2012	Chairman COO

Corporate governance concerns to employees' role on management. In US context, corporation is viewed as private actor. Management function has directed to shareholders' wealth maximization. This view affects employees' position as stakeholders. OECD figures (2000-2014) have shown that US employees have longer hours and low paid

than in any other industrialized western country**. Furthermore, there is no legal law for employee to have any representation at board level.

2.2 Corporate Governance in UK

In the perspective of UK, the country's economy depends on the efficiency of the company. Thus, the use of one-board system is expected to provide the board with responsible freedom in running the company effectively and accountably. As mentioned previously, the rise of trade and form of company in the form of cooperation has received attention through the Joint Stock Companies in 1844. Later, the lack of separation between owners and company, where company's bankruptcy was the bankruptcy of the owner, made UK to publish a Limited Liability Act in 1855. Three models of corporate governance in UK are a private company - limited by shares -, private company - limited by guarantee -, and a public limited company (PLC). In UK context, employees' representatives have the same characteristic on US' corporate governance. There is no legal law for employee to have any representation at board level.

2.3 Corporate Governance in EU

Europe frees the application of company management, choosing either the one-board system or the two-board system. France, Spain, Switzerland, Portugal, and Italy use one-board system. Meanwhile, Germany, Sweden, Austria and the Netherlands use two-board system (Daniri, 2014: 24). In managing a company, this system separates the functions of manager (director) from the function of supervisor (commissioners). Supervisors only oversee the company and give advice to the directors, but they are not given the authority to manage the company. Members of the board of directors must meet strict recruitment criteria. Under Maastricht Treaty and Amsterdam Treaty, the Social Policy is the idea that employee welfare is a fundamental part of successful economic policy (Fannon, 2003: 27). In EU context, employee representatives (known as co-determination) have seats in the board, but shareholders representatives is the only that have the deciding vote. Employee representatives concern on employee's scope. Codetermination can provide systematic communication channels and provide democratic input into company decision making.

2.4 Corporate Governance in Indonesia

In managing companies, Indonesia uses two-board system, which separates the duties and functions of managers and supervisors clearly. In general, companies operate in two fundamental differences: conventional and Islamic. Thus, the company regulations issued by the various institutions follow the company's system. Concept of Islamic company intended for Islamic Financial Institutions. IFI has two standard setters, AAOIFI (Accounting and Auditing Organization for Islamic Financial Institutions) and IFSB (Islamic Financial Services Board). AAOIFI for sharia accounting and auditing standard, while IFSB for regulatory and supervisory standards. These institutions provide standards in line with Basel Committee and other standard setting to ensure consistency (Kammer et al, 2015: 17). Corporate governance in IFI is to assure on services in accordance with sharia rules and principles. IFI has attempted this issue by appointing sharia committee, known as Sharia Supervisory Board (SSB). AAOIFI and IFSB concern governance on independence and professionalism SSB, as the ultimate board who assures sharia IFI compliance. For employee's relationship, in Indonesian context, has the same characteristic on US' corporate governance. There is no legal law for employee to have any representation at board level.

** Minimum relative to average wages of full-time workers in US has the lowest index in 2000-2014 (OECD Statistic).

Table 2, Institutions, Functions, Scandals of Corporate Governance (UK)

Accounting		Government (Politics)		Other Legal System		Fraudulent statements	
Name	Note	Name	Note	Name	Note	Name (y)	main players
Financial Reporting Council, FRC, 1990, bodies:	Develops CG standard, **"UK Corporate Government Code"***	**Parliament of UK** made several act:	Consist of: the Monarch, the House of Lords, and the House of Commons.	**Chartered Institute of Management Accountants (CIMA)**, 1919.	Offers training in management accountancy.	Pergamon, 1971	CEO
1. Accounting Standards Board , 1990, (replaced Accounting Standards Committee)	Issues accounting standards in UK. Released UK GAAP. Overtaken by FRC totally in 2012.	Joint Stock Companies Act 1844	provided for incorporation and joint stock companies	**Counter Fraud Centre (CFC)**, 2014, designed by CIPFA.	Develops tools and services for public sector and counter fraud and corruption.	Polly Peck, 1990	CEO
2. Financial Reporting Review Panel, 1990.	Ensures public and private compliance with Act.	Limited Liability Act 1855	limited liability for shareholders	UK Committee on CG, taken over by FRC, combined reports and codes concerning on CG (Cadbury - Smith Report)		BCCI, 1991	CEO
3. Accountancy & Actuarial Discipline Board	Investigates professional firms' conduct.	Joint Stock Companies Act 1856	simple procedure to register company	Cadbury Report, 1992, responded Maxwell , Polly Peck and BCCI case. Recommended on the boards and accounting system to mitigate CG risks and failures.		MG Rover Group, 2005	Chairman, Chief Designer, CEO
4. Professional Oversight Board (POB)	independent regulator of corporate governance.	The Companies Act 1985	amended series companies act 1862, 1907, 1908, 1928, 1929, 1947, 1948.	Greenbury Report, 1995, recommended director remuneration.	Hampel Report, 1998, combined Cadbury and Greenbury Report.	Tesco, 2013	CEO
5. Auditing Practices Board, 1991.	Sets standards of auditing and provide public confidence to audit process.	Companies Act 1989, amended Company Securities Act 1985, Financial Services Act 1986, Fair Trading Act 1973, Policyholders Protection Act 1975, and Company Directors Disqualification Act 1986		Turbull Report, 1999. Board obliged to maintain internal control, audit practices, ensured the quality of financial reports, and detected fraud.			
6. Board of Actuarial Standards, 2005	Responsible Actuarial Profession standards.	The Companies Act 2994 regulated for Audit, Investigations and Community Enterprise		Myners Report, 2001. It concerned to institutional investors for their best interest on their beneficiaries.			
IASC (1973-2001)	Responsible for developing IAS	The Companies Act 2006 regulated comprehensive code of company law for the UK		Higgs review, 2003, responded to Enron case. It concerned on effectiveness of non-executive directors and auditor committee.			
IASB, 2001, (replaced IASC), be international body	Issues IFRS	Bribery Act 2010 (repealed Public Bodies Corrupt Practices Act 1889, Prevention of Corruption Act 1906;1916).		Smith Report, 2003, responded to Enron case. Recommended to independence auditors.			
Institute of Chartered Accountants in England and Wales (ICAEW), member of IFAC.	Designed to achieve high level professional experience.	**Bank Of England**, 1694.	Responsible for monetary policy in UK to help promote national economic goals.	**CIPFA**, 1885, member of IFAC.	Provides professional qualification for public sector accountants.		
				ACCA, 1904, member of IFAC.	Enhances the value of accounting in society through international research.		

Table 3, Institutions, Functions, Scandals of Corporate Governance (UE)

Accounting		Government (Politics)		Other Legal System		Fraudulent statements	
Name	**Note**	**Name**	**Note**	**Name**	**Note**	**Name (y)**	**main players**
IASB, 2001	Responsible for developing, preparation, issuing IFRS and its interpretation	**European Commission**, 2009	Executive body to propose legislation (European Parliament), implements decision, maintains the EU treaties, and manages business in EU.	**European Corporate Governance Institute (ECGI),** 2002.	Improving CG through independent scientific research. It contributes to debate the best corporate governance formulation of policy and development.	Parmalat (Italy), 2003	Chairman and CEO
Federation of European Accountants (FEE).	Analyses and contributes to regulatory, public policy development and professional to European accountancy profession.	**European Central Bank**, 1998	Maintains price stability and monetary policy in Eurozone.			Arcandor (Germany), 2009	CEO
European Federation of Accountants and Auditors For SMES (EFAA), 1994	Organization for national accountants and auditor who focuses on SME services in EU.					Schlecker (Germany), 2012	COO and CFO

Table 4, Institutions, Functions, Scandals of Corporate Governance (International)

Accounting		Government (Politics)		Other Legal System	
Name (y)	**Note**	**Name (y)**	**Note**	**Name (y)**	**Note**
IFAC, 1977.	Promotes high quality accountants and establishes international standards.	**UNCAC**, 2003.	United Nations Convention Against Corruption	**IAASB**, it was IAPC (1978). Member of IFAC.	Supports quality of assurance and facilitating implementation standard globally.
PIOB, 2005	Oversees the public interest activities of standard setting boards.	OECD Anti-Bribery Convention, 1997.	Regulates corruption in OECD contries.	**IAESB**. Member of IFAC.	Provides guidance to education standards.
IASB, 2001	Develops, preparation, issuing IFRS and its interpretation.	OECD Principles of CG, 1999, revised in 2004, 2015.	Provides guidance through recommendations for the best practice of CG	**IESBA**. Member of IFAC.	Develops ethical standards for professional accountants.
CGMA, 2012.	Promotes management accounting globally.			**IPSASB**. Member of IFAC.	Provides standards for financial reporting by public sector.
IOSCO, 1983.	Regulates securities and futures markets in the world.			**BCBS**, 1974. Member of IFAC.	Provides the Core Principles for Effective Banking Supervision.
				IAIS. Member of IFAC.	Provides supervision of insurance industry globally.

Table 5, Institutions, Functions, Scandals of Corporate Governance (Indonesia)

Accounting		Government (Politics)		Other Legal System		Fraudulent statements	
Name (y)	**Note**	**Name (y)**	**Note**	**Name (y)**	**Note**	**Name (y)**	**main players**
IFSAB (DSAK-IAI), member of IFAC, 1957.	Develops high professional accountants and issued Indonesian GAAP.	**House of Representative** and **President** stipulate law.	Function of House of representative are legislative, budgeting, and oversight government activities.	**Indonesia Financial Services Authority/ OJK**, 2011.	Regulates and supervises financial services sector.	Lippo Bank, 2002	BoD and internal auditor
	GAAP has two tiers:	Indonesian Law No.40/207 on Limited Liability Company	Regulation for listed company in Indonesian Stock Exchange.	**Governance Policy National Committee (KNKG),** 2004.	Increases best practice culture of good governance. KNKG issued Corporate Governance Code, which is in line with OECD CG Principle.	Kimia Farma, 2002 - - Indofarma, 2002 ISN, 2006 Century, 2008 BRI, 2011	Director and external auditor Marketing manager Director Director - Head of Branch Office
	SAK, for listed company and other entities with significant public accountability (convergence process to IFRS)	Indonesian Law No. 8/1995 on Capital Market	Regulation for capital market activities	**Commission for the Eradication of Corruption (KPK), 2002.**	Monitors, investigates and prosecutes corruption cases in state governance.	IFI: Bank Islam Malaysia Berhad, 2005 Dubai Islamic Bank, 2009	- CEO - - CEO
	SAK ETAP, for entities with no significant public accountability.	**Bank Indonesia**	Establishes and maintains rupiah stability			Mandiri Syariah Banking (Indonesia), 2013	Head of Branch Office and accounting staff

3. Discussion

Corporate governance has internal control; it is represented by the board structure. On one board system, although it is not clear separation duties, non-executive directors are responsible to supervise performance of executive directors. Meanwhile on two board system, commissioners have supervisory function. While for external control, many institutions issued regulation, guidelines, and standards. Tables 1-3 summarize institutions, functions, and scandals of corporate governance.

Table 1-5 explain institutions as external control has not able to prevent corporate governance failure. It was proven by the scandals, including for Islamic Financial Institutions. The main difference from the implementation of corporate governance is the governance structure and employee's representative. Meanwhile, in the corporate governance rules, all countries have tried to do their best, but some scandals still occur from year to year. What causes the financial scandals? According to Ghoshal (2005) were caused by fraud[10], done by management. The involvement of management dominates fraud cases. Beasley, et al. (1999:5) found that 72% of fraud cases were

done by directors (CEO), 43% by CFO, and 83% were done together by both. The next proportions are cases done by internal control director, operations director (COO), and other board members. How does the world respond to the fraud cases? Coffee (2005: 1) revealed that "*when the bubble burst, scandals follow, and, eventually, new regulation*". The regulations are designed in layers to prevent repetitions of abuse of roles and procedures within the company. One that might be absent from the prevention efforts are the party that are expected to be limited by the newly issued rules[††], i.e. the executive. In reality, they are individuals with a higher intellectual ability, experience, influence, and broader access in the organizations. These capabilities enable them to take action outside normal organizational routines. In decision making, managers even sometimes are able to break through the system through a unilateral policy [‡‡] (Kilfoyle, et al., 2013).

On the other hand, the similarity of all conventional practices of corporate governance is the enactment of theory. There are two theories underlying corporate governance. Firstly, shareholder theory arranges relationship between shareholder as a principal and the manager as an agent, it refers to agency theory. In this theory, shareholder's prosperity is the central aim of the firms. As a consequence, the agent is expected to perform for the best interest of the shareholder. Together with that, shareholder activities are monitoring and controlling the agent through enforcing changes in the firm's structure of internal control (Lashgari, 2012). Shareholder theory applied based on utilitarianism approach. This means it is expanded to value judgments by principle of maximizing happiness and minimizing pain (Rodgers and Gago, 2004).

Secondly, stakeholder theory explains relationship between corporate and stakeholders. Stakeholders are defined as any identifiable group or individual who can influence the achievement of firm's purposes (Freeman and Reed, 1983). Hence, stakeholders deserved and required management priority since they contribute to gain benefits. This theory is applied based on deontology approach. This approach emphasizes the rights of individuals and the judgments related with a particular decision process rather than on its choices (Rodgers and Gago, 2004). This means that the decision is encouraged by a judgment based on a perception of a circumstance. As follows, corporate may action to balance the interest of identified stakeholders as long as has good consequence for corporate.

Both theories in its implementation confront criticism. There are two criticizes on shareholder theory. First, using utilitarianism, management allows to ignore other stakeholders while considers only shareholders' interest. Thus, short term profits are sought whereas long term survival of the corporation is doubted. Enron and WorldCom were only some representation of many corporate governance failure based on this theory. Second, there is no agency contract between management and shareholder, since shareholders buy their stock from previous owners, not from the corporation. There are never any dealings personally between management and the shareholder. The primary agency problem is not conflict between outside investor and management, but between outside investors and controlling shareholders who have nearly control management. In the large corporation, shareholders are only beneficiary who own stock; they have no legal elements necessary to establish an agency relationship (Post, 2003a; Velamuri and Venkataraman, 2005).

In addition, there are two criticizes on stakeholder theory. First, stakeholder theory is unworkable because it is ambiguous and inconsistent. There is not exactly definition who the stakeholders are. This means that the corporation still has to focus, prioritize, and identify stakeholders who can influence the achievement of firm's purposes. As a consequence, this also be a discrepancy between the stakeholder requires and the corporate actually delivers because of prioritize mistake. Second, there is still has an agency theory. According to Lashgari (2012); Rezaei, and Jalilmehr (2012), at big corporation, common shareholders have the right to choose their agent on the board of directors of a corporation. General Meeting of Shareholders has the right and responsibility to remove poorly performing managers. This means that an agent who is not concern with shareholders' interest will be changed by General Meeting of Shareholders. As follows, diverting the firm's resources to purely socially activities is unethical because it goes against the fiduciary obligation due to the shareholders (Coelho, et al, 2003).

[††] The relation between regulation and doer is likened as smoke and fire. If the effort is only directed to remove the smoke without extinguishing the fire, the effort will be futile (El –Ashiy, 2011: 104)

[‡‡] known as vernacular accounting.

In addition, implementation of agency theory can be seen clearly in employee relationship. In the US, employees are treated as people who must carry out their obligations. Meanwhile, in the EU, the protection of company towards employees is better. This can be achieved by taking all the interests of the company into account. By increasing the value of stakeholder, the shareholder's interests can be protected indirectly. This agency theory is also conducted by IFI. According to Choudhury and Hoque (2004) and Iqbal and Mirakhor (2004) stated that Islamic corporate governance is a stakeholder model by protect interest and rights of stakeholders than only for shareholders (Hassan, 2010: 8) [§§].

The article argues that both theories appearance the mechanisms of power through capitalism by protect theirs interest. Jackson and Carter (1995) describe corporate governance is concern with organizing things (including people) within the concept of economy. Shareholder theory protects stockholder by maximizing their wealth whereas stakeholder theory protect firm's survival by increasing interest on identified stakeholders. This means that the selective stakeholders are who have the most influence to the firm's objective for long term. Moreover, based on capitalism, management has his discretion to choose stakeholder who has benefit, importance signifying, value, and contribution to the firm.

Maximization of wealth and stakeholder identification in economic manner is the reflections of capitalism. Capitalism is rooted in Calvinist ideology (Weber, 2006; McGowan, 1999; Kaletsky 2010), which accumulates capital based on the goal of achieving material satisfaction. This trait fosters individualism in human beings. Capitalism is built on the truth of human nature, which is giving reward and opportunity to individuals who work diligently to advance and succeed (Eberle, 2014: 37). Countries that implement capitalism believe that they can get a good position in the global competition (Nasr, 2009) because they bring improvement on the standards of living (Kasser, 2007: 60). Preservation of individualism (self-interest) is only objected to material, which comes from human nature, which is a powerful way to prosper themselves and the environment. This understanding naturalizes the application of capitalism in business activity. It means that the thought and ideology that human is self-interest in nature, which must compete to obtain material prosperity, paint their social life, and the though and the ideology are believed as something natural. The criticisms on this understanding are four: material objective, psychological assumptions, the nature of self-interest, and the reality of life. First, people who see the reality of life limited only to material awareness will only be motivated by material (Kasser, 2007: 68). Individuals in this stage have the lowest awareness. They see and understand their self and their environment in narrowly based on sensory pleasure or physical needs (Mustafa, 2005). This consciousness is limited. Second, when the psychological assumptions are not clearly identified, the nature of individuality will be simplified and claimed as human nature, natural reasonable thing possessed by every human being (Kasser, 2007: 68). In fact, individuality in capitalism leads to injustice (Kaletsky, 2010), social inequalities (Hertz, 2004), and the waning of nationalism (Nasr, 2009). This means that psychology should be more careful in identifying the manifestation of individualism in capitalism. Third, in the existence of the organization, individualism, analogized simply in mathematical equations, is the denominator, and good qualities such as competence, integrity, and intimacy is the numerator. The larger the denominator (individualism), then the results obtained (in the form of self-confidence on the environment) will be smaller. It means that individualism does not support the advancement of organization, but it sows the seeds of failure instead. Fourth, the reality of life is not only dominated by competition. Ruth Benedict (anthropologist) found that cultural factors (togetherness and concern) also determine people's behaviour. In the Zuni, Hopi, Arapesh, and Pueblo Indian, which became the place of her research, passion to compete defeating others was not found. The passion to help others in the face of adversity was actually found.

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[§§] It cannot be separated from the general ethics adopted by the agency theory. The company's main goal is maximization of shareholder's wealth.

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