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# Implementation of Good Corporate Governance (GCG) Principles in Improving Company Performance in Indonesia

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**Abstract**

This study aims to analyze the implementation of Good Corporate Governance (GCG) principles in Indonesian companies and assess their effectiveness in improving corporate performance and accountability. GCG implementation is becoming increasingly important with the increasing demands for transparency, accountability, and corporate social responsibility. This study uses a normative-juridical approach and a literature review method, reviewing legal literature, laws and regulations, scientific journals, and reports on GCG implementation in various companies. A descriptive-analytical approach is used to describe the actual conditions of GCG implementation and assess its impact on corporate governance. The results show that although regulations governing GCG principles exist in Indonesia, their implementation still faces various challenges, such as weak management commitment, a lack of understanding of GCG principles, and minimal external oversight. This study recommends the need for regulatory strengthening, increased GCG literacy among business actors, and an active role from supervisory institutions in supporting the creation of good and sustainable corporate governance.

## I. INTRODUCTION

In an era of globalization and increasingly competitive markets, a company's sustainability and success are determined not only by its capital or technological sophistication, but also by its ability to implement sound and integrated governance. Good Corporate Governance (GCG) is a crucial foundation for building a healthy, transparent, responsible company that prioritizes the long-term interests of all stakeholders.

The concept of GCG emerged as a response to various economic crises and corporate scandals that have occurred in various countries, including Indonesia. Cases of manipulation, abuse of authority, financial reports, and weak internal corporate oversight systems demonstrate that without good governance, companies are vulnerable to various risks, including financial losses, declining public trust, and even bankruptcy. Therefore, GCG exists as a mechanism to create a balance of power and accountability, while ensuring that management decisions are carried out in accordance with the principles of fairness, openness, responsibility, and independence.

In Indonesia, efforts to implement GCG are increasingly driven by government regulations and policies, particularly in state-owned enterprises (SOEs) and public companies. The Forum for Corporate Governance in Indonesia (FCGI), along with various regulations such as Law Number 40 of 2007 concerning Limited Liability Companies, serve as the normative foundation for companies to develop sound governance systems. However, GCG implementation in Indonesia still faces several challenges, both internally and through ownership structures, and through weak law enforcement.

This study aims to examine in-depth the basic principles of Good Corporate Governance, their implementation in Indonesian companies, the benefits they bring to company performance, and the obstacles encountered in implementing these principles. By examining case studies of several companies such as PT Pos Indonesia, PT Telkomsel, and PT Kereta Api Indonesia, it is hoped that this will provide a concrete picture of the effectiveness of GCG implementation and recommendations for future improvements.

## II. RESEARCH METHODS

This research uses a juridical normative approach and library research as its primary methods. Data were obtained from various secondary sources, such as corporate law books, scientific journals, laws and regulations related to Good Corporate Governance (GCG), and case study reports from Indonesian companies that have implemented GCG principles. Primary legal sources, such as Law Number 40 of 2007 concerning Limited Liability Companies, Financial Services Authority (OJK) regulations, and state-owned enterprise (SOE) policies, also served as the primary basis for analyzing the normative aspects of GCG.

This method was chosen because the discussion of GCG is closely related to legal norms and corporate governance practices reflected in official documents and the applicable legal framework. The juridical normative approach allows researchers to examine the extent to which existing legal regulations govern and encourage the effective implementation of GCG in the corporate environment. Furthermore, this study also uses a descriptive analytical approach, comprehensively describing how GCG principles are implemented in Indonesia and analyzing their effectiveness in improving corporate performance, accountability, and transparency.

Using this method, the research is expected to provide a comprehensive overview of the relationship between legal norms and corporate governance practices in Indonesia. This research also aims to identify the obstacles faced by companies in implementing GCG and provide a critical analysis of the effectiveness of existing regulations. Furthermore, this research is expected to contribute to the development of legal science, particularly in the field of corporate law, and serve as a consideration for policymakers and business actors in formulating strategies for better and more sustainable GCG implementation in the future.

## III. RESULTS AND DISCUSSION

### A. Basic Principles of Corporate Governance (GCG)

Before discussing GCG principles, we must first understand what Good Corporate Governance (GCG) is. GCG is a term derived from English: "good," meaning good, "corporate," and "governance." Generally, the term "good corporate governance" is translated into Indonesian as "good corporate governance."

The Forum for Corporate Governance in Indonesia (FCGI) defines corporate governance as a set of regulations that regulate the relationship between shareholders, company managers, creditors, government, employees, and other internal and external stakeholders related to their rights and obligations or in other words a system that regulates and controls the company.

The Organization for Economic Co-operation and Development (OECD) defines GCG as a set of relationships between company management, the board, shareholders, and other parties with an interest in the company (OFE, 2004). GCG requires a structure, tools to achieve objectives, and performance oversight. Good GCG implementation can provide positive incentives for the board and management to achieve goals that are in the common interest.

The Regulation of the Minister of State-Owned Enterprises (BUMN) states that GCG is the principles that underlie a company's management processes and mechanisms based on laws and business ethics. Therefore, Good Corporate Governance (GCG) is a system, principle, and mechanism that regulates and controls the running of a company in a transparent, accountable, responsible, independent, and fair manner, with the aim of protecting the rights and interests of stakeholders, both internal and external.

According to the Good Corporate Governance Guidelines (2017), the spirit of implementing good governance is reflected in the principles of Good Corporate Governance, including the following:

1. Transparency

   The principle of transparency is openness in implementing decision-making processes, communicating material and relevant information about the Company, and complying with all applicable laws and regulations governing the sharing of information. Transparency also encompasses matters relating to information required by public authorities regarding the company's products, services, and operational activities. This information can influence all aspects of stakeholder behavior (Nurhayani, 2022).

2. Accountability

   Accountability is the assurance that an individual or organization is evaluated on their performance or behavior related to something for which they are responsible. Therefore, companies must be managed in a directed, measurable manner, and in accordance with the company's interests, while taking into account the interests of shareholders and other stakeholders. Accountability is a prerequisite for continued operations. The principle of accountability is clarity about the mission, implementation, and responsibilities of a business organization so that business management can function effectively. Responsibility means fulfilling the duties and authority of an individual or organization to fulfill the obligations set by the company. This responsibility includes declaring or fulfilling duties and authority, reporting on the implementation of duties and authority, and being accountable for the activities that fulfill duties and rights (Nurhayani, 2022). Companies apply the principle of accountability as a means to address problems arising from the division of tasks between agencies in society and reduce the impact of agency problems arising from differences in interests between directors, shareholders, and related parties.

3. Responsibility

   The principle of responsibility is that company management complies with applicable laws and regulations, as well as good business practices and the principles of Good Corporate Governance (Makmur, 2022). The entity adheres to business ethics in conducting its business, fulfills obligations in accordance with applicable laws and regulations for related parties, respects the culture of the communities where the Company operates, and strives to make a real contribution to society. Businesses must comply with laws and regulations and assume social and environmental responsibility to maintain long-term business continuity and be recognized as good corporate citizens (Nurhayani, 2022).

4. Independence

   Independence aims to accelerate the implementation of GCG principles. Entities must be run independently so that no one party controls another and cannot be intervened by others. Companies strongly believe that independence is essential for the functioning of regulatory bodies and the proper decision-making. Each business unit carries out its duties in accordance with applicable laws and regulations and Good Corporate Governance guidelines (Makmur, 2022). The principle of independence is a requirement for a company to be run professionally, not subject to conflicts of interest or pressure from other parties, and not in accordance with applicable laws and regulations and good business practices (Nurhayani, 2022).

5. Fairness

   The principle of justice is fairness and equality in relation to the rights of stakeholders arising from agreements and applicable laws and regulations. The Company guarantees the protection of stakeholder rights and they will always be treated equally without discrimination in accordance with applicable laws and regulations. In carrying out its activities, the company must always pay attention to the interests of shareholders and stakeholders based on equality. The interests of the principle of fairness of the Company and ensure the protection of the interests of stakeholders will always benefit from equal and non-discriminatory treatment in accordance with applicable laws and regulations. The Company will always strive to ensure that interested parties know their rights and obligations in accordance with the law.

## B. Implementation of Good Corporate Governance (GCG) Principles in Companies in Indonesia

A company must implement the principles of Good Corporate Governance as a primary factor considered by creditors when choosing to grant loans. Companies in developing countries can implement aspects of corporate governance to help restore creditors' confidence in the performance of companies experiencing crises, such as in Indonesia. Credit agreements worldwide are required to adhere to the principles of Good Corporate Governance. Companies implementing these principles often have a greater likelihood of obtaining credit for their businesses (Abdullah, 2011). There are three main steps in initiating implementation within a company (Thomas, 2006):

a. Socialization is crucial for educating the entire company about various aspects of GCG implementation, particularly implementation guidelines. This should be carried out by a dedicated team, directly under the supervision of the CEO and a director selected as the company's GCG champion.
b. Implementation is the action taken based on existing GCG guidelines and in accordance with the established path. The GCG implementation process must be bottom-up and involve the company's board of commissioners and directors. It must also include change management efforts to oversee the transformation process resulting from GCG implementation.
c. Internalization is a long-term implementation phase. Internalization involves the comprehensive application of GCG to company processes and regulations. This ensures that GCG implementation is not merely superficial compliance but reflects all company activities.

To secure capital amidst increasingly fierce competition, the current focus is on the successful implementation of Good Corporate Governance. This is crucial for the business world, with the following objectives (Njatrijani, 2014):

a. Increase the ability to obtain capital in the global market
b. Encourage long-term investment and reduce the risk of rapid change
c. Improving the financial sector
d. Improve stable financial performance and responsible management

A company can be considered to have good corporate governance if it consistently adheres to the principles of GCG, including transparency, accountability, responsibility, independence, and fairness. Currently, companies in Indonesia are unable to implement corporate governance effectively, requiring them to implement their management principles effectively. This is due to the numerous challenges faced by Indonesian companies in their efforts to implement corporate governance principles effectively.

By improving accountability, responsibility, fairness, transparency, and work ethic, businesses implement good corporate governance. Improving corporate management and control ensures that financial and legal standards are implemented in a manner consistent with the company's articles of association and the law. The scope of good corporate governance includes: (Wibowo, 2010)

a. Financial Reports Annual, semi-annual, and company financial reports are regularly submitted to the public. Financial records and reports are prepared in accordance with appropriate accounting standards.
b. General Meeting of Shareholders Every year, the Company holds a General Meeting of Shareholders which functions to report on financial performance and management for the previous financial year in order to obtain agreement from the Shareholders and appoint a Public Accountant.
c. Board of Commissioners The Board of Commissioners is responsible for supervising the Company's Board of Directors.
d. The Board of Directors must act professionally and comply with the systems and rules established by the company's articles of association.
e. Independent Commissioners: In corporate governance, the Board of Commissioners must be independent and responsible for overseeing the Board of Directors. Independent Commissioners must not have any contact with shareholders.
f. The Audit Committee of the Board of Directors or the Audit Committee is responsible for ensuring the company's compliance with laws and regulations; ensuring the credibility and accuracy of the Financial Reports, including the Independent Auditor derived from the financial statements; and evaluating the performance of the supervisory forms

within the company, created by the Board of Directors and the Board of Commissioners.

Thus, by implementing good corporate governance and applying its principles properly to the company, the company can overcome existing obstacles so that the company's goals will be achieved.

**C. The Goals and Benefits of Good Corporate Governance (GCG) in Improving Company Performance in Indonesia**

The implementation of Good Corporate Governance (GCG) principles in Indonesia plays a vital role in creating a healthy, transparent, and competitive business climate. In the context of globalization and increasingly fierce market competition, good corporate governance is a fundamental requirement for Indonesian companies to survive and grow sustainably.

The main objectives of implementing GCG in companies, especially in Indonesia, include:

1. Increase investor and stakeholder confidence through information transparency and legal certainty in company management.
2. Creating a company management system that is efficient, accountable, and has integrity, so that it can encourage long-term performance improvements.
3. Ensure that management acts in accordance with the interests of the company and not for personal or group interests.
4. Avoiding the practices of corruption, collusion and nepotism (KKN) which are often the cause of company failure in Indonesia.
5. Increase corporate value in the eyes of the market and the public, thereby encouraging national economic growth.

The consistent and comprehensive implementation of GCG provides various tangible benefits for companies in Indonesia, both in the short and long term. Some of these benefits include:

1. Improving operational efficiency: With a clear structure and a strong internal control system, companies can run operations in a more orderly and productive manner.
2. Reducing legal and reputational risks: Compliance with regulations and business ethics prevents companies from legal conflicts, government sanctions, and a deterioration in their public image.
3. Growing market and investor confidence: GCG strengthens the company's credibility, making it easier to obtain funding and establish business partnerships.
4. Encourage objective and professional decision-making: The principles of independence and accountability help management to be free from influence by certain interests.
5. Ensuring the protection of the rights of shareholders and other stakeholders: Companies that implement GCG will be fairer and more open in addressing the rights of all parties involved.

**D. Reasons Why Good Corporate Governance (GCG) Has Not Yet Been Implemented Optimally in Indonesia**

Companies in Indonesia have not yet been able to implement corporate governance seriously enough to effectively implement the principles of good corporate governance. This is due to a number of obstacles faced by these companies as they strive to implement corporate governance and achieve good corporate governance principles. These obstacles can be divided into three categories: internal obstacles, external obstacles, and obstacles stemming from ownership structure.

Internal constraints include a lack of commitment from company leaders and employees, a low level of understanding from company leaders and employees regarding the principles of good corporate governance, a lack of role models or examples provided by leaders, the absence of a company culture that supports the realization of good corporate governance principles, and an ineffective internal control system.

External constraints in the implementation of corporate governance relate to legal instruments, regulations, and law enforcement (Wibowo, 2010). Both internal and external constraints are important for a company. However, if internal constraints can be resolved, external constraints will be easier to overcome. The third constraint is one that stems from the ownership structure.

Based on the percentage of ownership in shares, ownership of a company can be divided into two, namely concentrated ownership and dispersed ownership. Concentrated ownership occurs when a company is predominantly owned by a person or group of people (40.00% or more). Dispersed ownership occurs when a company is owned by many shareholders with a small number of shares (one shareholder only owns 5% or less of shares).

One of the negative impacts caused by the ownership structure is that the company cannot realize the principle of justice properly because shareholders who are concentrated in one person or group of people can use the company's resources dominantly so that it can reduce the company's value. Just like external constraints, the negative impacts caused by the ownership structure can be overcome if the company has an effective internal control system, such as having a system that guarantees the distribution of rights and responsibilities fairly among various participants in the organization (Board of Commissioners, Board of Directors, managers, shareholders, and other stakeholders), and this negative impact will also disappear if in its organizational structure, the company has a certain number of Independent Commissioners and meets the specified qualifications (the requirements specified to become an Independent Commissioner) (Indah, 2021).

**E. Implementation of Good Corporate Governance (GCG) Principles in Companies in Indonesia**

The implementation of Good Corporate Governance (GCG) principles in various Indonesian companies is a crucial indicator of establishing a healthy, efficient, and trustworthy company. Numerous case studies and research have demonstrated that sound GCG implementation can improve company performance across various aspects, including financial, operational, and reputational aspects. The following are some concrete examples of GCG principles in action:

1. PT Pos Indonesia (Persero) Sumenep Branch

The implementation of Good Corporate Governance at PT. Pos Indonesia (Persero) Sumenep has been implemented, although not yet fully, especially regarding the principles of accountability and responsibility, thus affecting the company's performance. This can be seen clearly, from several calculation results for the Financial Aspect, Operational Aspect, and Administrative Aspect. This indicates that the performance of PT. Pos Indonesia (Persero) Sumenep Branch is included in the Healthy category.

To further improve company performance, PT. Pos Indonesia should consistently implement Good Corporate Governance principles and continually evaluate them. Furthermore, it is necessary to improve the quality of human resources and research and development to support the implementation of GCG principles (Asri, 2014).

2. PT. Telkomsel Tbk

PT Telkomsel is a state-owned enterprise (BUMN) that consistently implements the principles of Good Corporate Governance. Telkomsel has established governance bodies such as the Audit Committee, the Remuneration Committee, and the CFMP Committee to ensure oversight, transparency, and efficient decision-making across all aspects of its business. Telkomsel's GCG implementation is not only based on Law No. 40 of 2007 but also refers to the Sarbanes-Oxley Act because its parent company, PT Telkom Indonesia Tbk, is listed on the New York Stock Exchange.

Telkomsel also implements the corporate culture "The Telkom Way" as a form of internalizing GCG into its employees' work ethic. Telkomsel won the Soegeng Sarjadi Award in 2013 as one of five state-owned enterprises with the best GCG implementation and the highest profits. This award reflects Telkomsel's success in integrating good corporate governance with superior business performance (Njatrijani, 2019).

3. PT Kereta Api Indonesia (Persero)

PT Kereta Api Indonesia (PT KAI) is one of the state-owned enterprises (BUMN) that demonstrates a strong commitment to consistently and comprehensively implementing Good Corporate Governance

(GCG) principles. GCG implementation at PT KAI is not only a legal obligation but also a key strategy for the company to maintain integrity, build stakeholder trust, and improve long-term performance.

Implementation of GCG Principles at PT KAI:

a. Transparency: PT KAI provides open and accurate information through financial reports, management profiles, and a technology-based performance reporting system.
b. Accountability: The organizational structure is clear, the implementation of each unit's tasks is regulated according to guidelines and supported by a strong internal control system.
c. Responsibility: KAI actively carries out social and environmental responsibilities, and ensures that all operations comply with regulations and business ethics.
d. Fairness: KAI guarantees equality for all stakeholders, including in employee recruitment, promotion and customer service.
e. Compliance: The Company has anti-corruption and anti-gratification mechanisms, as well as implementing a whistleblowing system for reporting violations internally (Enjeli, 2024).

## IV. CONCLUSION AND SUGGESTIONS

### A. Conclusion

The implementation of Good Corporate Governance (GCG) is a fundamental requirement for Indonesian companies to face global challenges and build a healthy and sustainable corporate foundation. Basic GCG principles such as transparency, accountability, responsibility, independence, and fairness have been proven to improve operational efficiency, strengthen investor confidence, and encourage professional and ethical management. However, GCG implementation in Indonesia is not yet fully optimal, primarily due to internal obstacles such as leadership, lack of commitment, low employee understanding of GCG, and weak internal control systems.

Furthermore, external factors such as weak law enforcement and an imbalanced ownership structure also pose challenges. Case studies of several companies, including PT Pos Indonesia, PT Telkomsel, and PT Kereta Api Indonesia, demonstrate that the implementation of GCG principles can positively impact performance and public trust. Therefore, a strong commitment, increased GCG literacy among management and employees, and strong regulatory support are required to ensure consistent and effective GCG implementation in Indonesia.

### B. Suggestions

To improve the implementation of Good Corporate Governance (GCG) in Indonesia, it is essential for companies to strengthen leadership commitment and enhance GCG literacy among management and employees. Additionally, strengthening internal control systems should be prioritized to ensure effective application of GCG principles. Stricter and more consistent regulations from the government are also necessary to address external challenges such as law enforcement and ownership structure issues. Through synergy among companies, government, and stakeholders, GCG can be optimally implemented to support sustainability and improve corporate performance in the face of global competition.

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