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Review Article

The Urgency of Good Corporate Governance in The Perspective of Business Law in Indonesia

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Abstract: The implementation of Good Corporate Governance (GCG) principles in business practices in Indonesia has a high urgency to create a healthy, transparent and equitable business climate. This article examines the importance of GCG implementation from the perspective of business law, by highlighting the various challenges faced by business actors in implementing the principles of transparency, accountability, responsibility, independence, and fairness. The study also analyzes the role of regulation and law enforcement in strengthening GCG practices and their impact on investor protection and business continuity. Using a juristic normative approach, this article emphasizes that GCG is not only an ethical instrument, but also a legal obligation that supports the creation of sustainable and highly competitive corporate governance at the national and global levels.

Keywords: Business Law; Good Corporate Governance; Legal Obligation.

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1. Introduction

The implementation of Good Corporate Governance (GCG) has a very important role in the business world, because it is the main foundation for creating a healthy, transparent, and sustainable company. GCG emphasizes principles such as transparency, accountability, responsibility, independence, and fairness, all of which aim to create good corporate governance that can be trusted by stakeholders (The Iconomics , 2021). By implementing GCG consistently, companies can not only minimize the risk of abuse of authority and conflicts of interest, but can also increase investor confidence, credibility in the eyes of the public, and create a competitive and ethical business climate (Odito, 2023). In addition, GCG also plays an important role in improving the company's long-term performance, because it encourages management to make decisions that are not only financially profitable, but also oriented towards sustainability and social responsibility. Therefore, the implementation of GCG is no longer just an option, but a basic need for companies that want to survive and grow amidst increasingly complex business competition (Kompasiana, 2024)

Weak corporate governance or GCG can give rise to various legal problems that have a serious impact on business continuity and public trust. One of the main problems is abuse of authority by management or directors, such as embezzlement of company assets or strategic decision-making without shareholder approval. In addition, weak internal supervision can also lead to corruption, collusion, and nepotism (KKN) practices in the Company environment (Zarkasyi, 2008). Another legal problem that often arises is a conflict of interest that is not managed properly, so that business decisions are taken for personal gain, not the interests of the company. This can violate the principle of fiduciary duty or the obligation of good faith of management to the company. Companies are also vulnerable to legal sanctions and negative reputations , especially if they are not transparent in conveying financial reports or important information to the public, which could violate the Capital Market Law or the Limited Liability Company Law. Not only that, failure to meet governance standards also has the potential to give rise to lawsuits from minority shareholders , business partners, or even employees who are harmed (Hukumonline, 2022).

In the Indonesian business law system, GCG has a strategic position even though it is not explicitly regulated in a specific law. The principles of GCG have been integrated into various laws and regulations governing corporate governance, especially for legal entities such as Limited Liability Companies (PT), State-Owned Enterprises (BUMN), and financial institutions. One of the legal bases for the implementation of GCG in Indonesia is Law No. 40 of 2007 concerning Limited Liability Companies (UU PT) , which regulates the structure and mechanisms of company organs, such as the GMS, Board of Directors, and Board of Commissioners, as well as the legal responsibilities of each. The articles in the PT Law implicitly reflect the principles of GCG, such as accountability, transparency, and responsibility . In addition, Law No. 19 of 2003 concerning BUMN, explicitly mentions the importance of implementing GCG to improve the performance and value of state-owned companies. In the financial sector, the implementation of GCG is required by regulators such as the Financial Services Authority (OJK) and Bank Indonesia (BI) , for example through POJK No. 55/POJK.03/2016 on the Implementation of Governance for Commercial Banks. This regulation not only requires the implementation of GCG, but also regulates the reporting and evaluation mechanisms periodically. Institutionally, the National Committee for Governance Policy (KNKG) has also issued General Guidelines for GCG as a practical reference for the implementation of GCG in Indonesia, which although soft law , is often used as a reference by companies and auditors in assessing compliance with the principles of good governance.

Thus, although GCG is not codified in a single law, its position in the Indonesian business law system is very important and is spread across various sectoral regulations that are binding, as well as being a standard of ethics and compliance that must be met by every business entity (Hukumonline, 2020).

This study aims to explain, analyze, and understand the importance of implementing GCG in the business world , as well as identifying various legal issues that arise due to weak corporate governance . This study also aims to examine the legal position of GCG in the business legal system in Indonesia , both in terms of regulation and its implementation in business practices, and to provide recommendations for effective GCG implementation to improve transparency, accountability, and sustainability of the Company.

2. Previous Research

According to the research results of Salma Zahada Sabhira, Muhammad Umar Fadhilah (2024) showed that the GCG Principle is a potential mechanism to ensure company compliance in running its company with company law. However, in its implementation in GCG companies, there are many obstacles in its implementation. Meanwhile, research conducted by Rinitami Njatrijani et al. (2019) explains that the implementation of GCG in companies has generally been carried out well, but if there is a company that only pursues large profits without paying attention to the welfare of its employees, it cannot be said to fulfill or implement GCG principles . The existence of GCG principles has a positive impact on the sustainability of the company and employees. According to research conducted by Thomas S. Kaihatu (2006), GCG is a system that regulates and controls companies in order to create added value for all stakeholders . From various results of studies conducted by various national and international independent research institutions, it shows a low understanding of the importance and strategy of implementing GCG principles by business actors in Indonesia. In addition, organizational culture also influences the implementation of GCG in Indonesia.

3. Research Methods

This study uses a normative legal method. Normative legal research is a study by examining document studies, namely by using various secondary data such as Legislation, court decisions, legal theories, and can be in the form of opinions of scholars (Soekanto 2007). Normative Legal Research is a study that utilizes normative case studies in the form of positive legal studies which are found in the Law (Zainuddin, 2003).

The things studied in normative legal research include several things such as legal principles, legal systematics, the level of legal synchronization, comparative law and legal history. (Prasetyo Sulisyanto et al., 2023).

4. Literature Review

4.1 GCG Concept

GCG is a set of principles and mechanisms used to direct and control a company to achieve a balance between management power, shareholder interests, and the interests of other stakeholders. According to the Organization for Economic Co-operation and Development, corporate governance is a system that regulates and controls a company with the aim of creating added value for all stakeholders (OECD, 2015), Good governance is a key step in preventing fraud or corruption. The main principles of good governance, such as transparency, accountability, and responsibility, are designed to build an open and accountable system. The principle of transparency aims to make all government processes and decisions clear and easily accessible to the public (Faizul Idris, 2024)

The implementation of GCG is very important to create a healthy, competitive, and long-term sustainable company. In this context, there are five main principles that are the pillars in the implementation of GCG, namely:

- Transparency , which requires companies to provide clear, accurate and accessible information to all stakeholders to prevent asymmetric information.
- Accountability , which demands clarity of function, reporting and accountability of each company organ so that decisions taken can be accounted for professionally and ethically.
- Responsibility , namely the company's compliance with applicable laws and regulations as well as sound business moral and ethical principles in carrying out its activities.
- Independence , which means that every company organ must be free from conflicts of interest and unfair influence in order to act objectively.
- Fairness , which requires fair and equal treatment of all shareholders and stakeholders, including protection of minority rights.

Consistent application of GCG principles is believed to increase investor confidence, operational efficiency, and the company's reputation in the long term.

4.2 Business Law in Indonesia

Business law in Indonesia is a branch of law that regulates all aspects related to business activities or economic transactions, whether carried out by individuals, business entities, or other legal entities. Business law is the entire legal rules, both written and unwritten, that regulate the rights and obligations that arise in the implementation of trade, industry, and services. The scope of business law covers various important aspects such as contract law, corporate law, consumer protection law, competition law, investment law, bankruptcy law, capital market law, and insurance and banking law.

The existence of business law aims to provide legal certainty, create a healthy business climate, and protect the interests of the parties involved in business transactions. The role of business law is crucial in supporting national economic growth, because through fair and transparent regulations, business law encourages the creation of trust in the business world and reduces the risk of detrimental disputes. Without legal certainty, business actors will feel hesitant to carry out their economic activities, which can hinder economic development itself. Thus, business law not only functions as a control tool, but also as an instrument of economic development and legal protection in commercial activities.

4.3 The Relationship between GCG and Business Law

GCG and business law have a close and mutually reinforcing relationship in creating healthy and integrity-based corporate governance. Business law serves as a normative framework that provides a legal basis for the implementation of GCG principles, such as transparency, accountability, responsibility, independence, and fairness. Without a clear legal basis, GCG principles are difficult to implement consistently and effectively. Law plays a role as a regulatory instrument in the business world that can force business actors to behave in accordance with legal norms and business ethics.

In this context, the law does not only act as a coercive function , but also as a facilitator of economic activities with integrity and sustainability. For example, Law No. 40 of 2007 on Limited Liability Companies explicitly requires companies to implement good governance principles in their organizational structure, including the obligation of directors and board of commissioners to carry out their duties responsibly and professionally. In addition, capital market regulations and Financial Services Authority (OJK) regulations also strengthen the implementation of GCG, especially for public companies. Thus, the law acts as a normative basis as well as a control mechanism against deviations, as well as a bridge between corporate interests and public protection. In the long term, the existence of strong and consistent laws encourages the creation of a healthy business climate, increases investor confidence, and strengthens the reputation of business institutions.

5. Discussion

5.1 The Urgency of Good Corporate Governance in the Business World

The implementation of Good Corporate Governance (GCG) is a crucial element in creating corporate sustainability amidst the dynamics and pressures of global competition. GCG is not only a tool to achieve managerial efficiency and legal compliance, but also a foundation for companies to maintain long-term existence. Good GCG is able to create an effective internal monitoring system, strengthen management accountability, and minimize the potential for conflicts of interest and unethical practices that can damage business continuity.

With a good governance structure, companies can manage risks more wisely and adaptively to changes in the business environment. In addition, GCG also plays an important role in building and maintaining investor trust and strengthening business reputation in the eyes of the public. Investors, especially institutional, tend to be more interested in investing in companies that demonstrate transparency in financial reporting, consistency in legal compliance, and professionalism in decision making. In the long term, this trust will create better financial stability and wider access to funding. A positive business reputation as a result of GCG implementation also has an impact on increasing customer loyalty, company competitiveness, and strategic partnership opportunities. Therefore, GCG is not just a normative obligation, but rather a strategic need for companies that want to grow sustainably and competitively in the global market.

5.2 Legal Regulations Regarding GCG in Indonesia

Legal regulations regarding GCG in Indonesia have undergone significant developments as an effort to strengthen healthy and transparent corporate governance practices. The main legal basis for the implementation of GCG is contained in Law Number 40 of 2007 concerning Limited Liability Companies, which regulates the organizational structure of the company, the obligations of the board of directors and board of commissioners, and the principles of accountability and protection for shareholders. In addition, Law Number 8 of 1995 concerning the Capital Market is also an important basis for regulating information disclosure, affiliated transactions, and reporting obligations for issuers. An important role in the implementation of GCG is played by the Financial Services Authority (OJK), which through OJK Regulations (POJK) regulates governance obligations for public companies and financial institutions, including periodic reporting, ethical guidelines, and audit committee structures and risk management. One important regulation is POJK No. 21/POJK.04/2015 concerning the Implementation of Guidelines for Public Company Governance, which encourages the principles of transparency and accountability in issuer operations. On the other hand, the Indonesia Stock Exchange (IDX) also has a strategic role through listing regulations and information disclosure obligations that must be met by listed companies. BEI even compiled a GCG Roadmap as a guide to strengthening governance in the capital market. Beyond that, institutions such as the National Committee for Governance Policy (KNKG) also made important contributions through the publication of the General Guidelines for GCG Indonesia (2006) which became an initial reference for various business sectors, including cooperatives and BUMN.

Comprehensive legal arrangements and institutional support are important foundations in realizing effective GCG practices, which will ultimately increase integrity, public trust, and corporate competitiveness at the national and global levels.

5.3 Obstacles to GCG Implementation in Indonesia

Although the implementation of GCG has become an important agenda in corporate management in Indonesia, the reality on the ground shows that its implementation still faces various obstacles. One of the main obstacles is weak law enforcement, which causes GCG principles to often become merely an administrative formality without any real impact on managerial behavior. Many cases of governance violations, such as abuse of authority or manipulation of financial reports, are not followed up firmly due to legal loopholes, limited capacity of law enforcement agencies, and political or economic intervention. In addition, the business culture in Indonesia is also not fully in line with GCG values, such as transparency and accountability. In many organizations, the culture of patronage, nepotism, and dominance of business owners in decision-making is still strong, so that the principles of independence and fairness are often ignored.

The lack of commitment from top company leaders in internalizing GCG makes governance merely a matter of document compliance, not part of the organization's values and culture. The lack of strict sanctions against GCG violations also worsens the situation. Although the OJK and other institutions have set various guidelines and regulations, violations of governance principles are often only subject to light administrative sanctions, and are often ignored. This reduces the deterrent effect and reduces the incentive for companies to actually implement GCG substantially. Therefore, the success of GCG implementation depends not only on regulation, but also on political will, organizational culture, and a strong and consistent monitoring and law enforcement system.

Legally, the legal framework governing the implementation of GCG in Indonesia can be said to be quite adequate. The main regulations such as Law No. 40 of 2007 concerning Limited Liability Companies , Law No. 8 of 1995 concerning Capital Markets , and various OJK Regulations , such as POJK No. 21/POJK.04/2015 concerning Guidelines for Public Company Governance. Several of these regulations have provided a strong normative basis for the implementation of GCG principles, such as transparency, accountability, responsibility, independence, and fairness. However, legal analysis shows a significant gap between ideal regulations and implementation in the field. In practice, many companies including BUMN, cooperatives, and public companies have not fully implemented these provisions substantively. For example, the obligation to form an audit committee or submit an annual report is often only carried out as an administrative formality, without being accompanied by adequate strengthening of internal control functions and mechanisms. In addition, existing legal norms are often not accompanied by effective and efficient sanction mechanisms.

When violations of GCG principles occur, the sanctions imposed are often light or inconsistent, thus reducing the deterrent effect and not encouraging systemic improvements. From the perspective of the theory of legal effectiveness, as stated by Soerjono Soekanto, the success of the law does not only depend on the content or norms of the law itself, but also on factors of legal culture, law enforcement officers, and public legal awareness. Thus, although GCG regulations are normatively quite complete, their implementation still requires strengthening through strict law enforcement, increasing the capacity of supervisory institutions, and internalizing legal culture in the business world . Without improvements in these aspects, the implementation of GCG will find it difficult to achieve its goals as an instrument for creating corporate governance with integrity and sustainability.

6. Conclusion and Suggestions

Conclusion

Good Corporate Governance (GCG) is an important pillar in building a healthy, transparent, and sustainable business system in Indonesia. Normatively, the regulations governing corporate governance in Indonesia have been quite adequate, both through the Limited Liability Company Law, capital market regulations, and OJK regulations and guidelines from institutions such as the IDX and KNKG. However, the implementation of GCG in the field still faces various obstacles, including weak law enforcement, a business culture that does not fully support GCG values, and minimal sanctions for violations of governance principles. In addition, the effectiveness of the law has not been fully achieved because there is no optimal synergy between legal norms, enforcement agencies, and business actors' awareness of the importance of good governance. Therefore, GCG is not only a formal obligation, but also a strategic need to increase investor confidence, strengthen business reputation, and create corporate competitiveness at the global level.

Suggestion

- Consistent and firm law enforcement, to provide a deterrent effect against violations of corporate governance.
- Increasing awareness and legal culture in the business world, through ongoing education and training on GCG values.
- Increasing the capacity of supervisory institutions such as OJK and BEI, so that they are able to carry out their supervisory and development functions more effectively.
- Providing incentives for companies that implement GCG consistently, such as easy access to financing or tax incentives.
- Collaboration between government, business, academics and civil society to create a business ecosystem that supports good governance practices.

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