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Corporate Governance Practices Related the Role of Financial Services Authority of Indonesia: A Literature Review Study

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ABSTRACT
Based on previous studies, this study aims to explore three focus aspects: the role of the Financial Services Authority of Indonesia (OJK), the investment aspect and the leadership. A qualitative literature review methodology was employed to explore the various aspects of corporate governance. Research Ideas at the intersection of investment and good corporate governance can provide valuable insights into the evolving dynamics of modern financial markets: (1) Impact of ESG criteria on Investment decisions; (2) Comparative analysis of governance (3) Corporate governance and Innovation Investment; (4) Board Composition and Investment outcomes; (5) Crisis management and Investor relations; (6) Corporate governance and Sustainable finance. Exploring research ideas at the intersection of company leadership and good corporate governance can yield valuable insights into how organizational dynamics influence business success and integrity. Several potential research areas: (1). Leadership styles and Governance outcomes; (2). Digital leadership in corporate governance; (3). Sustainable Leadership and ESG Performance; (4). Technology and Governance Transparency. Through qualitative methodologies derived from recent corporate governance phenomena in Indonesia, the article enriches research outcomes, providing valuable insights for regulators, investors, and decision-makers in Indonesian companies.

Keywords: *corporate governance, research ideas, industry 4.0*

1. INTRODUCTION

The phenomenon of the failure of corporate governance in several countries is documented in studies by (Rossouw Styan, 2019), (Gupta, 2021), (and Shah et al., 2022), which collectively underscore critical failures in corporate governance across different contexts. Rossouw & Styans' analysis of Steinhoff International Holdings reveals a collapse initiated by its CEO's resignation and auditors' refusal to validate financial statements, highlighting the risks of powerful CEOs and ineffective board structure. Gupta's research on Punjab and Maharashtra Co-operative Bank in India shows a banking crisis rooted in crony capitalism, collusion and regulatory lapses, advocating for higher governance standards in the banking sector. Shah's study in Pakistan links CEO duality and inadequate board structure to corporate failures, underscoring the need for effective governance reforms to prevent financial collapses and improve corporate governance in developing markets. Together, these studies illustrate the broad impact of poor corporate governance on financial stability and the imperative for robust regulatory and governance reforms.

Following the sequential failure event in Indonesia (Subiyanto, 2022), one of the largest airline companies, Garuda Indonesia

a state-owned airline due to flawed corporate strategies and malpractices, particularly excessive investment. The study employs a mixed methodology, combining case studies with descriptive and content analysis

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from 2009 to 2021. It reveals that Garuda's bankruptcy was primarily due to overinvestment in aircraft procurement, exacerbated by malpractices in corporate strategy, offering lessons on the risks of business expansion and the importance of ethical corporate practices. The failure continues in state-owned and private companies in the East Kalimantan Industrial Estate (Hartono et al., 2023). Utilizing the SOR (Stimulus-organism-response) modelling method and PLS-SEM reveals that organizational structure and the national cultural environment significantly influence CG implementation, mediated by organizational structure, contributing to a deeper understanding of the factors affecting CG in Indonesia. The study also highlights results for Syariah banking in Indonesia (Azizah et al., 2023), the importance of utilizing normative legal methods, the failure due to many Syariah banking reluctance to fully adopt GCG (Good et al.) and suggests that rather than new laws or regulations, a change in legal culture and a commitment to GCG implementation in professional life is necessary. Findings could be better in CG implementation, and PT also supports this. Asuransi Jiwasraya (Jiwasraya) (Dharmayuni, 2022)

GCG practices are critically needed for all stakeholders, in the long run, to ensure sustainability, especially in Industry 4.0 (Alkaraan et al., 2023); several phenomena all over countries, including Indonesia, have shown that not only companies but also the level of enforcement regulation need to collaborate. The need for better governance quality in Industry 4.0 is also supported by the research (Hussainey et al., 2022) business model and corporate transformation towards Industry 4.0, which is bringing new challenges for all stakeholders.

Contributions: Previous studies when analyzing the success or failure of corporate governance using a quantitative method, like the study conducted by (Gang et al., 2023) (El-Deeb et al., 2022), showed that the Korean study on foreign ownership and innovation investment analyzed data from 530 manufacturing firms using statistical models, focusing on the effect of firm age and growth opportunities. The Egyptian study on corporate governance and firm value examined non-financial firms in the Egyptian stock exchange, using statistical methods to link governance practices with disclosure tone and firm value. Both employed quantitative analysis to explore corporate governance impacts in their emerging markets. Similar to the context of emerging countries (Tiep et al., 2022) emphasized methodology covariance-based structural equation modelling (CB-SEM), these studies investigate how corporate governance affects firm value.

In the context of Indonesia (Abigail & Dharmastuti, 2022); (Ferriswara et al., 2022) also focus on quantitative methodologies of companies in the LQ45 Stock Index 2016-2020 and 13 companies from the Jakarta Islamic Index (2015-2021), both articles exploring the influence of corporate governance on financial value and performance. The qualitative method has been employed in several corporate governance phenomena in Indonesia in the last five years; this method will enrich the variety of results that will be useful for further research. This method's use is based on several previous studies' limitations.

The novelty of this research is to explore three focus aspects there are the role of the Financial Services Authority of Indonesia (OJK), the investment aspect and the leadership that comes from cases, particularly in the context of Indonesia, learning the impact from several cases can bring up new research topics to enhance the practical basis. Industry 4.0 in the context of CG implementation is a novelty of this research. Different business models have an impact on committed fraud or unethical business practices, and this research is one of the reminders of the failure of CG in Industry 4.0

Based on previous studies, this research aims to explore the focus aspects, which are the role of the Financial Services Authority of Indonesia (OJK), the investment aspect, and the leadership.

The objective of this study, which aims to explore the role of the Financial Services Authority of Indonesia (OJK), the investment aspect, and leadership within the context of

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corporate governance practices, can be justified for several reasons: Importance of OJK's Role: The Financial Services Authority of Indonesia (OJK) plays a crucial role in overseeing and regulating financial institutions and markets in Indonesia. Understanding its role within the framework of corporate governance practices is essential for ensuring effective regulation and compliance, which ultimately contributes to the stability and integrity of the financial system.

Significance of Investment Aspect: Investment decisions are fundamental to corporate governance as they impact the allocation of resources, financial performance, and shareholder value. Investigating the investment aspect within the context of corporate governance practices allows for a comprehensive understanding of how investment decisions are made, monitored, and evaluated within Indonesian companies, thereby shedding light on the effectiveness of corporate governance mechanisms in safeguarding investor interests.

Influence of Leadership: Leadership plays a pivotal role in shaping corporate governance practices. Examining leadership dynamics within the Indonesian context can provide insights into how leadership styles, behaviors, and decision-making processes influence corporate governance outcomes. Understanding the role of leadership in corporate governance is essential for identifying areas of improvement and implementing effective governance mechanisms that promote accountability, transparency, and ethical conduct.

2. LITERATURE REVIEW

(Jensen & Meckling, 1976) focuses on the theoretical framework surrounding the behaviours of managers within firms, the costs associated with agency relationships, and the impact of ownership structures. These articles delve into the complexities of the corporate form and how managerial behaviours can diverge from the interests of shareholders due to personal incentives, potentially resulting in inefficiencies and costs known as agency costs. Agency theory applies to corporate governance practices in Indonesia, especially in the context of the fourth industrial revolution, which emphasizes digitalization and technological integration in business processes. The agency costs and ownership structures detailed in the paper provide a lens through which to examine whether corporate governance in Indonesia effectively mitigates agency problems or if the rapid technological changes of Industry 4.0 introduce new challenges to corporate governance and managerial behaviour.

The ("POJK 21/POJK04/2015," 2021) outlines the efforts of the Otoritas Jasa Keuangan (OJK) to promote good corporate governance among public companies in Indonesia. OJK has established a set of regulations and guidelines under the securities market law to ensure the implementation of good corporate governance. However, it acknowledges that these regulations only cover some aspects of corporate governance due to the diverse nature of business, including variations in industry sectors, company size and complexity. Therefore, this regulation introduces a set of guidelines for corporate governance that may not have been explicitly required by existing laws but are deemed necessary for public companies to adopt.

In addition to promoting the internalization of good governance practices, this regulatory framework aims to enhance transparency, accountability and overall corporate performance among Indonesian Public companies. The "comply or explain" model is instrumental in achieving this goal by allowing companies to adapt the guidelines to their specific context while maintaining a baseline of governance standards. This approach also enables stakeholders, including investors and regulators, to better understand the governance practices of each company, fostering a culture of openness and ethical business conduct.

The ("Pedoman Umum Governansi Korporat Indonesia (PUGKI) 2021," 2021) serves as a critical guide in advancing good corporate governance within Indonesia. Implementing its principles is vital in

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enhancing investor confidence, reducing capital costs, strengthening the capital market and financial sector, expanding employment opportunities and fostering sustainable economic growth. By adopting the guidelines of PUGKI, Indonesian corporations are expected to enhance their global competitiveness and contribute positively to environmental preservation and social welfare.

PUGKI 2021, an update of the 2019 version, was published with an emphasis on ethical motivations and aims to establish global standards of corporate governance practices, particularly for corporations listed in the capital market and managing public funds. This comprehensive guide intends to protect the interest and meet the expectations of shareholders, creditors, debtors and other stakeholders, ultimately creating long-term corporate value. PUGKI 2021 provided general corporate governance practises and serves as a basis for KNKG to develop other governance guidelines for specific sectors or types of corporate ownership, such as state-owned or family-owned enterprises. It encourages corporations to adopt governance practices suitable to their operation, including environmental, size, complexity, and the nature of risks and challenges they face.

(Marnet, 2005) Moreover, (Bhagat & Bolton, 2008) explore aspects of corporate governance from different angles. Market delves into the psychological influences on decision-making, emphasizing the impact of cognitive biases and the importance of integrating behavioural insights into governance frameworks. Bhagat, meanwhile, investigates the connection between governance practices and firm performance, revealing that while certain practices like board stock ownership and CEO-chair separation relate to better operational performance, their effect on stock market performance is less direct. Both studies collectively underscore the complexity of corporate governance and the need for a nuanced approach that incorporates both economic and psychological perspectives.

(Morck, 2008) Moreover, (Malik & Makhdoom, 2016) addresses corporate governance's pivotal role in shaping firm performance, albeit from distinct perspectives. Morck emphasizes the historical and international context of governance, highlighting its importance in addressing agency problems and enhancing economic efficiency. Focusing on Fortune 500 companies, Malik empirically investigates the impact of governance structures like board characteristics and CEO compensation on firm success, suggesting nuanced relationships between governance practices and operational outcomes. Collectively, these studies highlight the integral role of effective governance in fostering firm performance and economic stability.

The 2016 study by (Mihaela and Claudia, n.d.) focuses on the dynamics between corporate governance and business failures, emphasizing how robust governance mechanisms can act as protective barriers against financial distress and failure. Conversely, the 2016 research by (Andreou et al., 2016) examines the influence of corporate governance on stock price informativeness, illustrating that effective governance practices enhance market transparency and information symmetry among investors. These studies collectively highlight the crucial role of corporate governance in not only safeguarding against business failures but also improving market efficiency and investor confidence.

The 2017 studies by (Bhatt and Bhatt, 2017) and (Singh et al., 2018) explore the influence of corporate governance on firm performance, with Bhatt focusing on Malaysia, revealing that governance practices like board size and diversity significantly impact organizational efficiency and shareholder value. Meanwhile, S's research further illuminates the critical role of governance mechanisms in enhancing firm performance, emphasizing the need for adaptive governance models tailored to specific business environments and regulatory frameworks. Both studies underscore effective corporate governance's importance in fostering firm productivity and profitability across different geographical contexts.

The 2018 studies by (Bae et al., 2018) delve into corporate governance's multifaceted impact on firm performance and macroeconomic stability. Bae et al. focus on how governance mechanisms influence firm

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efficiency and shareholder value, highlighting the importance of robust governance structures for organizational success. Chow's research extends the analysis to the macroeconomic level, examining how corporate governance affects economic stability and growth, suggesting that effective governance can mitigate financial risks and foster economic resilience. Together, these studies underscore the critical role of corporate governance in ensuring both firm-level and broader economic well-being.

3. RESEARCH METHOD

A qualitative literature review methodology was employed to explore the various aspects of corporate governance. This approach systematically examined existing literature, including academic papers, industry reports and case studies (Bougie & Sekaran, 2019), to glean insights into the implementation and impact of good corporate governance practices. This method is particularly effective for capturing the nuanced and contextualized understanding of corporate governance issues. A notable phenomenon in this methodology is its capacity to identify patterns and themes across diverse sources, offering a comprehensive view of the prevailing discourse in corporate governance.

4. RESULTS AND DISCUSSIONS

1. *Role of The Financial Services Authority of Indonesia (OJK)*

Over the past three years, the Financial Services Authority of Indonesia (OJK) has played a crucial role in enhancing corporate governance. Here are some initiatives undertaken by OJK:

Implementation of Sustainable Governance:

OJK has been promoting adopting corporate governance practices that support sustainable development in the financial service industry. It involves efforts to avoid negative consequences and seize opportunities in the context of sustainable development. The implementation of sustainable governance in Indonesia is a collective responsibility involving collaboration between the industry, professionals and regulators. OJK has introduced a roadmap, developed the Sustainable Finance Information Hub, and introduced the Indonesia Green Taxonomy.

Regulations of Sustainability Reporting:

OJK has issued regulations related to Sustainability reporting. ("SEOJK 16/ 2021," 2021). The form and content of the annual report for issuers or public companies regulate the presentation of Sustainability Reports as part of the annual reports. This regulation allows companies to expand their information disclosures, including referring to international standards.

Formation of the Sustainable Finance Task Force:

OJK established the Sustainable Finance Task Force, comprising 47 Financial Service Institutions. This task force collaborates and coordinates with the industry to respond to development in sustainable finance issues at the national, regional and global levels. Strategic initiatives include establishing a carbon exchange, developing a reporting system for green financing, creating a risk management framework and risk-based supervision guidelines.

Roadmap for Corporate Governance in Indonesia:

OJK released the Indonesian Corporate Governance Roadmap (Roadmap et al.) specifically for issuers and public companies. Its primary aim is to enhance the implementation of corporate governance practices in Indonesia. The roadmap provides a comprehensive overview of various aspects of corporate governance that need improvement, including governance frameworks, shareholder protection, stakeholder roles, information transparency and the role and responsibilities of the Board of Commissioners and Directors.

Through these measures, OJK strives to raise corporate governance standards in Indonesia, especially in the financial service

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sectors, focusing on sustainability, transparency and accountability.

2. ***Investment Aspect***

When analyzed in conjunction with corporate governance practices, investment conditions in Indonesia present multifaceted practices. The analysis is as follows;

Strengthening Corporate Governance:

The efforts by OJK to enhance corporate governance have likely positively impacted investor confidence. The regulatory framework has become more robust by emphasizing sustainable practices, transparency and accountability. It is crucial because strong corporate governance is often linked to lower investment risk and high investor confidence.

Impact of Sustainability Initiatives:

The focus on sustainable finance and the implementation of the green taxonomy by OJK aligns with the global investment trends toward environment, social and governance (ESG) criteria. This soft potential attracts more foreign investment, particularly from investors who are increasingly conscious about the sustainability practices of their portfolio companies.

Market Reaction to Regulatory Changes:

Introducing new regulations such as (“SEOJK 16/ 2021,” 2021) for sustainability reporting might have initially required companies to adapt, potentially affecting short-term investment as businesses adjust. However, in the long run, such regulations can lead to more transparent and reliable financial reporting, thereby improving market efficiency and attractiveness to investors.

Investor Sentiment and Public Companies:

The roadmap introduced for public companies and issuers to improve corporate governance likely enhances the overall investment climate. Investors tend to favour markets with clear, consistent and fair governance, as it reduces the risk of fraud and mismanagement and ensures their interest is protected.

Global comparisons and competitiveness:

Indonesia’s commitment to enhancing corporate governance could make it a more competitive and attractive investment destination compared to other emerging markets. However, ongoing monitoring and continuous improvement are necessary to ensure their reforms keep pace with global standards and investor expectations.

In summary, the past three years in Indonesia have seen significant efforts to improve corporate governance, likely impacting investment conditions positively. However, the impact is contingent on consistently enforcing these measures and the broader global economic environment.

Research Ideas at the intersection of investment and good corporate governance can provide valuable insights into the evolving dynamics of modern financial markets. Here are several potential areas for research: (1). Impact of ESG criteria on Investment decisions, this research could explore the correlation between ESG compliance and investment inflow, stock performance and company valuation; (2). Comparative analysis of governance models, different governance models across various industries and countries and analyze how these models impact investor confidence, risk assessment and long-term financial performance; (3) Corporate governance and Innovation Investment, explore how corporate governance practices influence a company’s investment n innovation and research & development; (4). Board Composition and Investment outcomes; (5) Crisis management and Investor relations, analyze how corporate governance affects companies’ ability to manage crisis and its impact on investor relations and stock market performance; (6) Corporate governance and Sustainable finance.

3. ***Leadership Aspect***

The analysis of corporate leadership conditions about corporate governance practices reveals several aspects:

Influence of Leadership on Corporate Governance:

Leadership at the highest levels, particularly the BOD and BOC, is crucial in setting the direction and adherence to good governance practices (Evans & Farrell, 2023; M. et al., 2018). In Indonesia, there has been an increased awareness that effective and accountable leadership is key to implementing good corporate governance. It is reflected in stricter regulations from OJK and an emphasis on compliance and transparency.

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Leadership in the Context of Crisis:

The COVID-19 pandemic has been a significant test for corporate leadership in Indonesia. The response to the pandemic, adjusting business operations and recovery strategies, has become a critical indicator for assessing leadership effectiveness. Companies with adaptive and proactive leadership tend to navigate the crisis successfully.

Leadership and Digital Transformation:

Digital transformation is a major part of the agenda for many companies in Indonesia. Leadership capable of integrating digital technology into business strategies and governance will likely excel in innovation and operational efficiency.

Leadership and sustainable growth: There is a growing trend in companies in Indonesia to integrate sustainable growth objectives into their business strategies. It reflects a shift in corporate leadership from focusing solely on profitability to a more balanced approach that also considers social and environmental impacts.

Overall, the state of corporate leadership in Indonesia in the last three years has shown significant shifts towards more mature and sustainability-oriented governance practices. Strong and visionary leadership is key to implementing and maintaining effective governance practices amidst a dynamic and often uncertain business environment.

Exploring research ideas at the intersection of company leadership and good corporate governance can yield valuable insights into how organizational dynamics influence business success and integrity. Several potential research areas: (1). Leadership styles and Governance outcomes, investigate how different leadership styles (transformational, transactional, servant leadership, et Cetera) impact the effectiveness of corporate governance; (2). Digital leadership in corporate governance studies the role of digitally savvy leaders in advancing corporate food governance practices, particularly in digital transformation. This research could explore how leaders proficient in digital technologies influence corporate governance in the digital age (3). Sustainable Leadership and ESG Performance investigate the relationship between leadership committed to sustainability and the company's performance on ESG criteria. This research could examine how leadership commitment to sustainability is reflected in governance practices and ESG outcomes; (4). Technology and Governance Transparency explore the role of leadership in leveraging technology to enhance governance transparency and stakeholder communication. This research can focus on how technological tools are used to facilitate transparent governance practices.

5. CONCLUSIONS

Over the last three years, the Financial Services Authority of Indonesia (OJK) has enhanced corporate governance. OJK's initiatives, implementing sustainability reporting regulations and introducing the Indonesia Green Taxonomy, have been focused on promoting sustainable practices and transparency in the financial sectors. These efforts aim to align Indonesia's financial sectors with global environmental, social and governance (ESG) trends, thereby improving governance standards.

These governance enhancements significantly influenced investment trends in Indonesia during this period. Strong corporate governance is increasingly recognized as a key factor in reducing investment risks and boosting investor confidence. The emphasis on ESG-compliant practices will likely attract more foreign investors, aligning with the global shift towards sustainability. However, the impact of these governance measures is contingent on their consistent application and the broader economic context, including the effects of the cOVID-19 pandemic.

Corporate leadership in Indonesia has evolved in response to these changes, with a growing focus on sustainable and ethical business practices. The pandemic has underscored the need for adaptive and proactive leadership in crisis management. There has also been a notable shift towards diversity in leadership and the adoption of digital technologies in governance. These changes

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reflect a broader movement towards leadership that focuses on profitability and considers social and environmental impacts, promoting sustainable long-term. growth

Not all aspects of implementing good corporate governance are discussed in this article. It indicates a focused approach to specific elements of corporate governance, leaving out other relevant factors or areas within this broad field that could also significantly impact the study outcome or interpretations.

Given this limitation, further research could expand on the areas not covered, including exploring additional dimensions of corporate governance, such as internal control mechanisms, the role of minority shareholders, or the impact of cultural factors on governance practices. Additionally, future studies might delve into sector-specific governance issues or compare governance practices across different industries within Indonesia. This broader approach could provide a more comprehensive understanding of the complexities and nuances of corporate governance in the Indonesian context.

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