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IMPACT OF GOOD CORPORATE GOVERNANCE MECHANISM ON BUSINESS PERFORMANCE IN THE CONSUMER SECTOR AT IDX

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Abstract

Good Corporate Governance (GCG) is a crucial principle in corporate governance, aimed at increasing company value and increasing public trust in management performance. The implementation of GCG principles, particularly in terms of transparency and information disclosure, is crucial for consumer sector companies listed on the Indonesia Stock Exchange (IDX). This study aims to examine the influence of Good Corporate Governance mechanisms on company value using a normative-juridical method. This approach is conducted through a study of various laws and regulations, GCG guidelines, expert doctrine, and relevant previous research findings. This study emphasizes the principles of transparency and information disclosure as a manifestation of GCG implementation in public companies. The results indicate that consistent GCG implementation, particularly through information disclosure, has a positive impact on increasing company value. This confirms that compliance with GCG norms and principles not only impacts good governance but also strengthens the reputation and competitiveness of consumer sector companies listed on the IDX.

Keywords:

Good Corporate Governance, Transparency, Information Disclosure, Company Value, Normative-juridical Method.

Introduction

One of the most important factors in modern business is the implementation of good corporate governance (GCG), also known as *tata kelola perusahaan*, which helps to create a productive workplace. The purpose of GCG is not only to ensure compliance with laws and business ethics, but it is also crucial for establishing investor trust, management credibility, and boosting a company's reputation among the general public. The fundamental principles of GCG, which include transparency, accountability, responsibility, independence, and integrity, are essential to developing a professional and honest system of work.

In the context of the Indonesian modal market, GCG's implementation is increasingly receiving attention by increasing the amount of information that will be protected and the protection of minority stockholders. As an organization that supports many public companies, IDX has highlighted the need of adhering to the GCG principle in order to uphold market integrity and provide healthy investment guidelines. As one of the BEI's main sectors, the consumer sector has a high level of public exposure, therefore adhering to the GCG principles—particularly those pertaining to transparency and information sharing—is crucial to preserving public and investor trust.

The company's value reflects investors' perceptions of the company's sustainability prospects and future performance. Therefore, the effective implementation of GCG is believed to be able to increase company value through enhanced trust, reputation, and managerial accountability. A good GCG mechanism enables the company to manage resources efficiently, minimize the risk of conflicts of interest, and ensure that every strategic decision is made based on the principles of prudence and compliance with applicable legal norms.

The principles of good corporate governance regulate equality and fairness among shareholders. Fairness, in its simplest terms, means equitable treatment, clarity of investor rights, enforcement of regulations, and a legal system designed to protect investors and their rights. Since the implementation of this principle is still difficult to achieve, fraud often occurs within companies. The types of fraud targeted include insider trading (dealing with inside information), share dilution (depreciation of company value), and collusion, corruption, and nepotism (KKN). This writing aims to understand the role of controllers in protecting the interests of minority investors within the framework of good corporate governance guidelines.

Literature Review

1. Legal Basis for the Implementation of Good Corporate Governance (GCG) in Indonesia

   The implementation of Good Corporate Governance (GCG) principles in Indonesia has a strong legal foundation and is regulated through various laws, regulations, and national guidelines. According to Law Number 40 of 2007 concerning Limited Liability Companies, Article 97 paragraph (2) emphasizes that the board of directors must carry out their duties in good faith and with full responsibility for the interests and objectives of the company. This provision represents the application of the principles of accountability and responsibility in corporate governance.

Furthermore, Law Number 8 of 1995 concerning the Capital Market highlights the importance of information disclosure (transparency) for public companies. Article 86 paragraph (1) states that issuers and public companies are required to submit annual reports to the Financial Services Authority (OJK) and disclose them to the public so that investors can obtain adequate information for making investment decisions. This provision reinforces the principle of transparency in the implementation of GCG.

In addition, the Financial Services Authority Regulation (POJK) Number 21/POJK.04/2015 concerning the Implementation of Corporate Governance Guidelines for Public Companies also serves as an important foundation for the application of GCG. Article 2 of this regulation states that public companies are required to implement good corporate governance on an ongoing basis. This guideline also regulates the five main principles of GCG—transparency, accountability, responsibility, independence, and fairness—which serve as the standard for implementation among public companies in Indonesia.

2. Firm Value Theory

Firm value is a key indicator that reflects the success of a company's management. According to Brigham and Houston (2011), firm value is defined as investors' perception of the company's success in managing its available resources. Legally, the concept of firm value is closely related to the purpose of establishing a company as stipulated in Article 3 of Law Number 40 of 2007, which states that a company is established to generate profit and provide economic benefits to its shareholders.

In addition, firm value is also influenced by the level of public trust built through information disclosure. This principle aligns with Article 86 of Law Number 8 of 1995 concerning the Capital Market, which emphasizes that issuers are required to submit annual reports and material information to the Financial Services Authority (OJK) and to the public. Thus, transparency and legal accountability become the main factors that influence market perception of a company's value.

3. Normative Relationship between GCG and Firm Value

Based on the prevailing legal framework, the implementation of GCG is a juridical obligation that has a direct impact on increasing firm value. The principles of transparency and information disclosure are not merely business ethics but also legal obligations regulated in various laws and regulations. In other words, the implementation of GCG in accordance with legal provisions can create legal certainty, public trust, and market stability, which ultimately contribute to the enhancement of firm value.

According to Article 97 paragraph (3) of Law Number 40 of 2007, the board of directors is personally and fully responsible for company losses if they are proven to have acted negligently or wrongfully in carrying out their duties. This provision reinforces the principle of accountability, which serves as the foundation of legal responsibility for management in maintaining firm value.

Thus, it can be normatively asserted that the GCG mechanism holds a strategic legal position within Indonesia's corporate legal system. Compliance with GCG principles as stipulated in laws and implementing regulations serves as a form of legal protection for investors and a legal instrument for enhancing firm value in a sustainable manner.

Research Method

The type of research used is a normative juridical approach, utilizing legal materials such as books, journals, legislation, legal theories, and expert opinions. According to Soerjono Soekanto and Sri Mamudji, normative legal research is "legal research conducted by examining library materials or secondary data." This research method employs a qualitative approach analysed descriptively. The researcher collects sources by reading and understanding data from books, journals, articles, statutory regulations, and other relevant materials related to the research title.

Research Result And Discussion

The Research Results and Discussion section contains an explanation of the influence of Good Corporate Governance (GCG) based on the research findings to provide answers or solutions to the research problem. If there are specific details corresponding to the issues discussed, sub-sections may be used as illustrated below.

1. Implementation of Good Corporate Governance Principles in Corporate Law in Indonesia

The principles of Good Corporate Governance (GCG) are crucial for countries to implement in order to prevent the recurrence of global economic crises (Khameswary, 2019). The application of GCG within companies serves significant purposes and offers substantial benefits for corporate sustainability and development. The main objectives and benefits obtained by companies include ensuring that the rights of shareholders are well protected, safeguarding the rights and interests of other stakeholders such as employees, customers, and regulators, and enhancing investor confidence, thereby increasing the company's overall value.

Applying the principles of GCG in the organizational structure and division of tasks between the board of directors and management can improve the efficiency and effectiveness of decision-making, strengthen the relationship between the board of directors and management, encourage the realization of transparency and accountability in the company's operations, and help identify and manage risks. (Sabrina and Sadalia 2021) The implementation of good GCG not only brings benefits to the company itself but also to all related stakeholders. This is an important step in creating a healthy, sustainable, and trustworthy company.

Article 4 of Law Number 40 of 2007 concerning Limited Liability Companies (Company Law) indirectly explains the principles of good corporate governance (GCG) in the operation of a company. (Government Regulation of the Republic of Indonesia, 2007) In Indonesia, GCG principles are regulated in the *Indonesian Corporate Governance Manual 2021* (hereinafter referred to as *PUGI-KI*) issued by the National Committee on Governance Policy (*Komite Nasional Kebijakan Governansi* or KNKG). The principles of Corporate Governance (CG) stipulated in *PUGI-KI* consist of eight aspects, namely: the roles and responsibilities of the board of directors, performance evaluation of the board of directors and its members, roles and responsibilities of the board of commissioners, formation of committees, performance evaluation of the board of commissioners and its members, conflict of interest, and the enhancement of the competencies of members of the board of directors and board of commissioners. (National Committee on Governance Policy, 2021)

State-Owned Enterprises (SOEs), which play an important role in Indonesia's economy, strictly regulate the principles of good corporate governance (GCG). This is stated in Article 5 paragraph (3) of Law Number 19 of 2003 concerning State-Owned Enterprises (SOE Law), which stipulates that the articles of association of SOEs, statutory regulations, and the principles of professionalism, efficiency, transparency, independence, accountability, responsibility, and fairness must be adhered to by members of the board of directors in carrying out their duties. Furthermore, Article 6 paragraph (3) of the SOE Law regulates the obligation of commissioners and supervisory boards to implement GCG principles. (Dewi, Nasution, and Siregar, 2021) Article 2 of the Financial Services Authority Regulation Number 73/POJK.05/2016 explains that every company is required to implement the principles of good corporate governance (GCG). The GCG principles stated in the regulation include: (Financial Services Authority, 2016)

1. Transparency, namely prioritizing openness in decision-making and the disclosure of important information so that parties with interests as regulated by law can easily access it. *The Implementation of Good Corporate Governance Principles in Corporate Law: Optimizing Accountability and Transparency in the Company.*
2. Accountability, namely the clarity of functions and the implementation of responsibility by the organs of the insurance company.
3. Responsibility, namely that the company, in managing its operations, is required to comply with applicable regulations and ethics, as well as sound practice standards for the insurance industry.
4. Independency, namely that in managing the company, it must be free from conflicts of interest and external influences so that the decisions made are not distorted by any party.

5. Fairness, namely ensuring justice and balance in fulfilling the rights of all stakeholders, based on agreements and applicable legal provisions.

The implementation of GCG in companies in Indonesia faces several challenges, including internal and external obstacles. Internal obstacles include the lack of good leadership role models, the existing corporate culture not yet supporting the realization of GCG principles, and an ineffective internal control system. Internal factors that can support GCG implementation include a corporate culture that supports GCG practices, regulations and policies established based on GCG principles, the provision of an effective audit system, and open access to public information.

External obstacles faced include weak law enforcement in the implementation of corporate governance by institutions such as Bank Indonesia, BPPN, the Ministry of Finance, and others, so that in resolving GCG violations, precedent cases (test cases) need to be carried out to familiarize the process with judicial or quasi-judicial proceedings. External factors that can support GCG include a sound legal system, support from the public sector/government for GCG implementation, the existence of good GCG examples to be used as models, the development of a social value system in society to support the realization of GCG principles, and the spirit of anti-corruption.

Until now, the implementation of GCG principles in Indonesia has not been optimal, as a strong commitment is required to realize the application of corporate governance in companies. In addition, the existence of internal and external obstacles has become a barrier to the implementation of GCG in companies.

2. Challenges in optimizing the principles of good corporate governance to achieve corporate accountability and transparency

The concept of Good Corporate Governance (GCG) is a set of principles and practices that regulate how a company is managed in a fair, transparent, and responsible manner. It is very important to apply GCG principles in creating a business that not only focuses on profit but also considers the interests of all stakeholders — namely shareholders, employees, customers, and society.

In this context, the two main pillars that support the establishment of good corporate governance are accountability and transparency. Transparency means providing clear, timely, and accessible information to all interested parties, while accountability means that company management is responsible for the decisions and actions taken in the company's operations.

These two principles are essential for organizations to avoid corruption, abuse of power, and decision-making that harms stakeholders.

Limited understanding can cause GCG principles to be implemented merely as a formality, or even ignored. This often occurs in companies that are too focused on generating short-term profits without considering the long-term impact of their decisions. For this reason, it is very important for managers and corporate decision-makers to receive continuous training and education. In addition, management must make an early commitment to implementing GCG, ensuring that these values are embedded in every corporate policy and strategic decision.

An unclear or ineffective organizational structure often hinders the implementation of GCG principles. Unclear division of authority, undefined boundaries of responsibility, and lack of coordination among company units can lead to inefficiencies in management and supervision. As a result, decision-making may become ambiguous, and it becomes difficult to ensure that all stakeholders are accountable for those decisions. Therefore, companies must have a clear organizational structure that distinguishes between management and supervisory functions to ensure that GCG principles are implemented effectively.

Although there are laws regulating GCG in Indonesia, such as Law Number 40 of 2007 concerning Limited Liability Companies and regulations issued by the Financial Services Authority (OJK), the main issues still relate to law enforcement and effective supervision. Many companies do not fully comply with GCG regulations due to a lack of oversight, ignorance, or neglect of their obligations. The imperfections of existing regulations and policies further exacerbate this problem. The regulations and policies have not yet fully accommodated the development of industries and the increasing complexity of companies.

GCG is often considered unimportant, especially in family-owned businesses or smaller sectors, due to their focus on short-term profits and the lack of need for external accountability. Without strong commitment from management, particularly from top levels such as directors and commissioners, the principles of GCG will be difficult to implement consistently across all lines of business.

It is very important for management to make GCG a part of the company's culture by introducing and implementing principles such as transparency, accountability, responsibility, and authority. This is because the effective implementation of GCG not only focuses on regulatory compliance but also has the potential to enhance the company's competitiveness in the market in the long term.

Organizations must have a clear and functional structure to maximize accountability and transparency. Everyone working for the company will understand their roles and authorities and how they are responsible for their work if there is a clear and non-overlapping division of duties and responsibilities.

Optimizing the implementation of Good Corporate Governance (GCG) principles to improve corporate accountability and transparency is not an easy task. However, with strong management commitment, a clear organizational structure, transparent information disclosure, and effective supervision, companies can ensure that every decision made is accountable and can be clearly accessed by all stakeholders.

Conclusion

Good Corporate Governance (GCG) is an effective and strategic principle for running a company and ensuring its sustainability in facing competition. In Indonesia, the implementation of GCG can be observed in various regulations such as the Company Law (UU PT), the State-Owned Enterprises Law (UU BUMN), and regulations issued by the Financial Services Authority (OJK), among others.

The principles of GCG applied in Indonesian companies include transparency, accountability, responsibility, independence, equality, and fairness. However, the implementation of GCG in companies has not been fully optimal due to internal and external challenges. Therefore, efforts from both the government and companies are needed to realize the implementation of GCG principles by ensuring that existing regulations and law enforcement effectively support the establishment of good corporate governance.

In efforts to optimize the principles of Good Corporate Governance (GCG) to achieve corporate accountability and transparency, many challenges are encountered. Some of these include a lack of understanding and commitment from management, which often leads to inconsistent or merely formal implementation of GCG. In addition, companies frequently face difficulties in establishing an effective organizational structure that allows for independent and detailed supervision.

Weak supervision, both internal and external, becomes an obstacle to creating maximum accountability, while non-transparent or delayed information disclosure reduces the level of stakeholder trust. Furthermore, conflicts of interest in decision-making and limited resources also hinder the optimal implementation of GCG principles.

However, despite these significant challenges, the proper implementation of GCG principles can still be achieved through appropriate measures. Therefore, companies need to enhance managerial understanding and commitment to the importance of GCG, as well as ensure that organizational structures and internal controls function effectively. Transparency in information disclosure—whether in financial reporting or company policies—must be further enforced to strengthen accountability.

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