

ARTICLE

## Historical Development of Good Corporate Governance in Indonesia (1998-2020): Government's Role in Establishing the Regulatory Framework

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### ABSTRACT

The issue of Good Corporate Governance (GCG) has developed over the centuries as a reaction to systemic crises or corporate failures. The well-documented failures of the Indonesian government are the 1997-1998 Asian financial crisis and the 2008 global financial crisis. Many experts regard Indonesia's recession as driven by poor government oversight of the financial sector. This study aims to analyze the historical impact of GCG in Indonesia in the 1998-2020 period on government performance. This study employs Foucauldian archaeology and uses official government documents (laws and policies and their derivatives), books, journals, mass media articles (offline and online), and websites as data sources. The data analysis consists of several activities, including collecting, presenting, and inferring data. This study concludes that the development of GCG in Indonesia has increased from a regulatory perspective. However, the development of GCG in Indonesia impacts the government's performance because there are still many problems in the practice of GCG in Indonesia. One of the problems is the *Jiwasraya* financial scandal. The Financial Scandal occurred due to the poor performance of the government, in this case, the Financial Services Authority (OJK), in supervising the insurance industry.

## A. INTRODUCTION

The issue of Good Corporate Governance (GCG) arises because of the separation between ownership and control of the company, often known as the agency problem. The agency problem in the relationship between the owner of the company and the manager is how difficult it is for the owner to ensure that the invested funds are not appropriated or invested in unprofitable projects that do not generate returns. GCG is needed to reduce agency problems because of differences between company owners and managers (Fathonah, 2016).

Before becoming the hottest vocabulary among business executives, the issue of GCG has developed over the centuries as a reaction to systemic crises or corporate failures. The well-documented failures of the Indonesian government are the 1997-1998 Asian financial crisis and the 2008 global financial crisis. Apart from the global financial system's vulnerability

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(Saptono & Khozen, 2021), many experts believe that the cause of the Indonesian recession was poor government oversight of the financial sector (International Finance Corporation, 2014).

After the 1997-1998 Asian financial crisis, the government restructured corporate governance, strengthened market power, tightened regulations, and emphasized transparency and accountability in decision-making. In addition, the government is increasingly committed to improving corporate governance because it recognizes the need to protect investor interests, reduce systemic market risk, maintain financial stability, and increase investor confidence to drive capital returns through greater accountability and transparency (Cabalu, 2015).

The government has carried out many initiatives and efforts to implement good corporate governance in terms of government companies and private companies. These initiatives and efforts include the establishment of a corporate governance institution and adopting new laws and amendments to existing ones to support implementing corporate governance in Indonesia. More specifically, the government has taken several steps to improve corporate governance standards and legislation (International Finance Corporation, 2014).

Although various improvement efforts have been made, GCG practices in Indonesia are still limited to compliance with regulations, guidelines, and checklists. Many companies have also conducted GCG assessments, either by themselves or by professional and independent third parties. However, the evaluation developed has only reached the aspect of building consensus and systems. In this case, it has not yet been determined whether the company's GCG implementation has migrated into a culture (Daniri, 2012).

In addition, the series of corruption cases in BUMN (State-Owned Enterprise) also contradicted the government's efforts to apply GCG principles. BUMN have held educational programs, and benchmarking studies, supervised cooperation between KPK (Corruption Eradication Commission) and BUMN, and participated in the best GCG Companies competition. However, successive disclosures of corruption cases have discredited the public (Pranoto, 2017).

The above statement proves that GCG is a long-term project. The concept is not an instant process because GCG is closely related to the values, culture, and commitment to positive community behaviour. It must go through three essential phases to achieve GCG ideally, namely, the phase of building commitment, the step of creating a system, and finally, building culture (Daniri, 2012).

In line with the research background and several corruption cases that occurred during the GCG reform in Indonesia, we can see that the development of GCG occurred due to the company's failure to implement GCG in their companies. GCG is needed to encourage the creation of an efficient, transparent, and consistent market with laws and regulations. For this reason, the support of all parties, especially the government as a regulator, is essential because the rules made by the government will significantly affect the implementation of GCG in the company.

Based on the explanation above, this study aims to analyze the historical impact of GCG in Indonesia in the 1998-2020 period on government performance. The authors are interested in writing this article to provide input for the government in making policies regarding the implementation of GCG for companies because the implementation of GCG is allegedly able to overcome agency problems within the company.

## B. LITERATURE REVIEW

### Good Corporate Governance

Before delving into Good Corporate Governance (GCG), it is imperative to describe the term governance first. Cajvaneanu (2011) defines governance as administration, authority, norms, or government. However, political scientists in the 1980s stressed the distinction

between governance and government (Kjaer, 2004). According to Rhodes (2007) and Hill (2013), governance encompasses governmental and non-governmental actors and private and public institutions.

There are many forms and many levels of the phenomenon of governance. At the community level, governance revolves around mediating between political forces. At this level, the choice of the role of government and its institutions fluctuates because it can decrease or expand. Meanwhile, at the organizational level, the pattern of governance for private sector and public sector organizations is different. In one country, the role of government can be centralized or decentralized to state or local governments. At the organizational level between countries, international organizations have an increasing or decreasing role (European Union, World Trade Organization, and United Nations) (Storey, 2012). Meanwhile, global governance at the international level is a collective effort to identify, understand and deal with world problems that individual countries cannot solve (Weiss, 2013).

Rhodes (2017) notes that governance has been widely used, one of which is governance as corporate governance (CG). CG refers to “the system by which organizations are directed and controlled” (Cadbury Report, 1992). The Cadbury Report (1992) is the first corporate governance report produced in the world. A committee in England, led by Sir Adrian Cadbury, made the report in response to the collapse of the company as a result of the rule of the board of directors by influential individuals (Tricker, 2012).

According to Sarbah & Xiao (2015), CG includes structures and processes to direct and control the business and the relationships between management, the board of directors, controlling shareholders, minority shareholders, and other stakeholders. Mueller (2018) also suggests that CG describes a set of institutions that determine how companies regulate shareholder rights and rules that determine how to elect members of the board of directors through their performance.

Meanwhile, Sedarmayanti (2012) defines GCG as a system, process, and set of rules that regulate the relationship between shareholders, the board of commissioners, and the board of directors to achieve organizational goals. The implementation of GCG is another form of enforcing business ethics and work ethics which have long been an indicator of the company's commitment to improving the company image (Purwani, Mahanavami, & Setiyarti, 2017). In addition, the implementation of GCG can also provide legal protection for minority shareholders (Putra & Muryanto, 2016). It means that the performance of GCG will protect the interests of shareholders and related parties in managing the company.

## **Agency Theory**

Agency theory is considered the best concept to explain the opportunistic behaviour of management in connection with the separation between ownership and inspection in public companies (Diri, 2018). In the “theory of the firm,” a company (“firm”) is considered a “black box” (black box) containing parties with different goals (Jensen & Meckling, 1976). Firms are called contracts between production factors, and every aspect has motivation according to its importance (Fama, 1980).

In general, the agency theory includes the relationship that reflects the basic agency structure between the principal and the agent assigned by the principal to cooperate. However, each of these parties has differences in (1) goals and (2) attitudes when facing risk (Eisenhardt, 1989). Shareholders are represented as principals in the company, while managers are agents (Diri, 2018). The difference between shareholders and managers can be a problem that arises in many companies. This problem is considered a particular case of agency relationship theory, and the agency problem arises (Jensen & Meckling, 1976). Thus, the agency problem arises because there is a distinction between the principal (Shareholder) and the agent (Board of

Directors). When confronted with risks, the distinction is in both parties' objectives and attitudes.

As a result of agency problems, agency costs arise. One example of agency costs is the costs incurred by the principal (shareholder) to oversee the behaviour of the board of directors as an agent. Supervision measures through external audits, capital markets, laws and regulations, internal audits, changes in salaries and managerial payments, ownership concentration, and good corporate governance (Boshkoska, 2015). Theoretically, Sehrawat et al. (2019) focus more on governance mechanisms to solve the agency problem.

Information is the main problem among the principal (shareholders) and the agent (management). Because the agents have more information from Shareholders, information asymmetry can arise and provide opportunities for leadership to not align with Shareholders' wishes (Diri, 2018). In this case, there can be a moral hazard or adverse selection from management (Zenger & Gubler, 2016). For this reason, shareholders need to make a contract with management so that each party can honestly disclose their information revelation principle) (Shah, 2014).

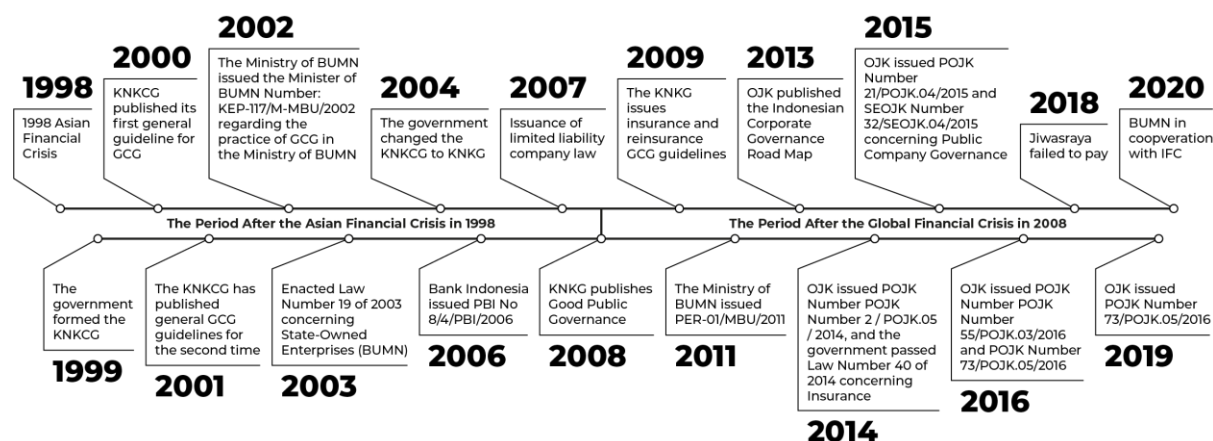
### C. METHOD

The research method employed in this study is qualitative research with a particular method to analyze the historical impact of Good Corporate Governance (GCG) in Indonesia in the 1998-2020 period on government performance. This study employs Foucauldian archaeology (Foucault, 1972) adopted by Sukoharsono and Gaffikin (1993) to investigate certain phenomena. The Foucauldian approach provides a more comprehensive and coherent explanation of historical knowledge transition (Sukoharsono & Gaffikin, 1993). This study uses official government documents (laws and policies and their derivatives), books, journals, mass media articles (offline and online), and websites as data sources.

The data analysis technique in this study follows Miles, Huberman & Saldana (2014), which consists of several activities. First, we summarize the data obtained from the field so that they can strengthen each data and make the researcher understand better when analyzing the data. Second, after summarizing the data, we continue to present the data in brief descriptions, tables, figures, and the like so that the research is more exciting and can draw conclusions. This step also makes it easier for readers to understand the research data. Third, we conclude the research objective, which contains the facts determining the study's outcome.

### D. RESULT AND DISCUSSION

In Indonesia, there are two periods in which Good Corporate Governance (GCG) has been developed. The history of GCG in Indonesia is inseparable from the following economic crisis events. First, the Asian Financial Crisis in 1998, followed by the collapse of large corporations such as Enron and WorldCom in 2002. Second, the Global Financial Crisis started with the subprime mortgage in the United States in 2008 (Sulistiyowati & Harjanto, 2016). Figure 1 summarizes the period of development of GCG in Indonesia. The following sub-chapter is a more detailed explanation of the image.



Source: authors' construction based on International Finance Corporation (2018).

Figure 1. Periodization of GCG Development in Indonesia

### The period after the Asian Financial Crisis (1998-2007)

Since the following events, the world's attention has shifted to corporate governance, including in Indonesia. First, in 1998, Asian countries were struck by the economic crisis. Second, in early 2000, a string of major corporate collapses in the US and elsewhere (e.g., WorldCom, Enron, Parmalat, Arthur Anderson, and Tyco) (Steger, 2014; Hamidi & Gabrielsson, 2014; Briano-Turrent & Rodríguez-Ariza, 2016).

Some say that the main trigger for the Asian financial crisis in 1998 was weak Good Corporate Governance ("GCG") (Prabowo, Rochmatulaili, Sulistyowati, & Rusdiyanto, 2020). After the incident, the implementation of GCG has become an issue that has attracted the attention of economists and business people in Indonesia (Farida, Roziq, & Wardayati, 2019; Hermawan & Gunardi, 2019; Setiawan, Taib, Phua, & Chee, 2019).

GCG is one of the significant efforts to escape Indonesia's economic crisis. In addition, the application of the principles of Good Corporate Governance is a factor in making investment decisions in a company (Antúnez & Molina, 2018; Molina, Marcano, Molina, Raby, & Tapias, 2019; Ching, 2020; Esqueda & O'Connor, 2020; Greene, Intintoli, & Kahle, 2020).

Although there is still plenty of room for improvement, Indonesia's corporate governance awareness, enthusiasm, and legal and regulatory environment has changed and improved tremendously. This move aligns with the ongoing progress of legal and regulatory corporate governance frameworks.

Indonesia's government and the business world have implemented various programs and efforts to encourage good corporate governance. The development of corporate governance institutions, the approval of new laws, and revisions of existing laws are steps and efforts to assist the implementation of corporate governance in this country. Indonesia has taken several initiatives to improve corporate governance and legislative requirements.

As one of the implementations of the Letter of Intent (LOI) with the IMF, the Indonesian government 1999 formed the National Committee on Corporate Governance (KNKCG) through a letter (Decree of the Coordinating Minister for Economy No. KEP/31/M.EKUI/08/1999). The KNKCG published general guidelines for Indonesian GCG for the first time in 1999, which then changed in 2001 and 2006. Given that the implementation of GCG by the business world would not be possible without good public governance and public participation. So, in 2004, based on the Decree (Decree of the Coordinating Minister for Economic Affairs No: KEP-49/M.EKON/11/2004), the government changed the National Committee for Corporate Governance Policy (KNKCG) into the National Committee for Governance Policy (KNKG).

To support the reform measures undertaken by the government, BAPEPAM (Capital Market Supervisory Agency), as the capital market regulator, issued 136 BAPEPAM regulations, 2 Government Regulations, and 4 Ministerial Regulations governing Capital Market. In 1999, BAPEPAM also compared the [OECD Principles of Corporate Governance \(1999\)](#) and the regulatory context in Indonesia. This comparison concludes that the regulatory framework in Indonesia includes the principles of the OECD Principles of Corporate Governance (1999) ([Kurniawan & Indriantoro, 2000](#)).

In addition, in 1999, the Board of Trustees of BUMN (State-Owned Enterprise) also determined to implement GCG in BUMNs in Indonesia. There are three directions for implementing GCG in Indonesia: establishing national policies, refining the national framework, and building private sector initiatives ([Suryanto, 2013](#)). Regarding the regulatory framework, the Ministry of BUMN, for the first time, introduced GCG through the [Decree of the Minister of BUMN Number: KEP-117/M-MBU \(2002\)](#) dated July 31, 2002, about GCG Practices in BUMN. The regulation aims to consistently make the principles of GCG the basis for BUMN operations. Following this regulation, on June 19, 2003, the government passed the State-Owned Enterprises Law ([Law Number 19 of 2003](#)). This provision, among other things, emphasizes that the purpose and objective of establishing BUMN are to provide participation for expanding the domestic economy in general and state revenue in particular.

On March 5, 1999, the Law on the Prohibition of Monopolistic Practices and Unfair Business Competition was passed ([Law Number 5 of 1999](#)). One of the goals of this Law is to foster a favourable business climate and increase the efficacy and efficiency of business operations. A Business Competition Supervision Commission is established, by the provisions of Article 30 ([Law Number 5 of 1999](#)), to oversee the execution of this Law. It is directly responsible to the President. The Indonesia Business Competition Supervision Commission (KPPU) is independent of the government's and other parties' influence and power.

Due to the ongoing corruption crimes, the Law on the Eradication of Corruption Crimes ([Law Number 31 of 1999](#)) was born to muzzle and destroy corruption. However, in 2001 the Corruption Eradication Law of 1999 was amended to the Corruption Crime Law of 2001 (Law Number 20 of 2001). The goal is to establish legal certainty, avoid legal interpretation variety, safeguard the community, and ensure equal treatment in the fight against corruption.

In the banking sector, by the provisions about the Practices of GCG for Commercial Banks ([PBI Number 8/4/PBI/2006](#)), Banks must apply GCG principles in all their venture action. The Indonesian Banking Architecture aims to increase the quality of GCG implementation to strengthen the national banking system (API). Furthermore, in Article 8 ([Law Nomor 23 of 1999](#)), Bank Indonesia also actively monitors and enforces the implementation of GCG in Commercial Banks.

Subsequently, in 2007 the Limited Liability Company Law ([Law Number 1 of 1995](#)) was amended by the Limited Liability Company Law ([Law Number 40 of 2007](#)). The Limited Liability Company Law of 2007 is more comprehensive than the previous regulation in accommodating and explaining governance principles by regulating the equality of corporate organs such as the General Meeting of Shareholders (GMS), the Board of Commissioners, and the Board of Directors. The 2007 Limited Liability Company Law also describes the roles and responsibilities of the Board of Commissioners and Directors and other elements of corporate governance. Thus, revising the Law has generally accommodated corporate governance issues in Indonesia.

### **The period after the Global Financial Crisis (2008-2020)**

The 2008 Global Financial Crisis affected European and Asian countries, including Indonesia. The crisis created investor panic and concerns about the safety of their investments. In addition, investor uncertainty occurs because many companies in Indonesia have not

consistently implemented GCG (Chrisnanda, 2014). Since the KNKG published the General Guidelines for GCG in 1999, efforts to implement GCG in the business world have increased. However, this increase has not been effective considering the three pillars, namely the state, business world, and society, have not implemented GCG in a balanced manner.

Although there are still obstacles to implementing GCG, the KNKG has increased Indonesia's global competitiveness by publishing the General Guidelines for Indonesian Good Public Governance. These guidelines can serve as a reference for good governance in the public sector. Overall, the KNKG has published several sectoral policies and manuals on corporate governance practices, as shown in Table 2.

Table 2. Corporate Governance Guidelines

No	Name of the guideline	Explanation
1.	General Code	a. Good Corporate Governance (KNKG, 2001, 2006) b. Good Public Governance (KNKG, 2008) c. Sharia Business Good Governance (KNKG, 2011)
2.	Sectoral Code	a. Banking (KNKG, 2004, 2013) b. Insurance and Reinsurance (KNKG, 2009) c. Actuarial Consultants (KNKG, 2011) d. Insurance and Reinsurance Brokers (KNKG, 2011)
3	GCG Manual	a. Audit Committee (KNKG, 2002) b. Whistleblowing System (KNKG, 2008) c. Business Ethic (KNKG, 2011) d. Risk Management (KNKG, 2012)

Source: adapted from [Decree of the OJK Board of Commissioners Number 1/KDK.01/2013](#)

Indonesia has undertaken several initiatives to strengthen corporate governance overhaul in the past few years. The Ministry of BUMN has made an effort by publishing a regulation on GCG Implementation in BUMN ([Minister of BUMN Regulation Number: PER-01/MBU/2011](#)). This step aims to improve GCG practices in BUMN further. With the enactment of this regulation, the Decree of the Minister of BUMN Number: KEP-117/M-MBU (2002) dated July 31, 2002, is declared invalid. However, in 2012 it ([Minister of BUMN Regulation Number: PER-01/MBU/2011](#)) was changed into [Minister of BUMN Regulation Number: PER-09/MBU/2012](#). The aim is to maintain the sustainability and restructuring program of State-Owned Enterprises.

The Capital Market and Financial Institution Supervisory Agency, which has joined the Financial Services Authority (OJK), has also introduced a regulatory framework to improve investor protection. OJK has prepared a Roadmap for Indonesian Corporate Governance ([Decree of the OJK Board of Commissioners Number 1/KDK.01/2013](#)). This roadmap is a milestone for improving the implementation of GCG practices. Also, this roadmap can be a reference for improving overall GCG practices, especially for Issuers or Public Companies.

Since November 16, 2015, OJK has issued provisions regarding the Practice of Public Company Governance Guidelines ([POJK Number 21/POJK.04/2015](#)). The aim is to improve GCG for Issuers or Public Companies whose implementation is not obligated by regulation. OJK produced Guidelines for Public Company Governance (SEOJK Number: 32/SEOJK.04/2015) as a follow-up to the issuance of this regulation. The Public Company's GCG Guidelines preparation has followed exemplary international practice and considers the sector, industry, size, and complexity.

In the insurance sector, in 2014, a regulation of GCG for Insurance Companies ([POJK Number: 2/POJK.05/2014](#)) was issued. One of the considerations that underlie the enactment of this regulation is to increase the capacity of GCG practices for insurance companies. Furthermore, the government adopted an Insurance Law ([Law Number 40 of 2014](#)) to

safeguard insurance consumers to promote a healthier, reliable, trustworthy, and competitive insurance business.

As a follow-up to the passing of the Insurance Law, OJK issued a regulation on GCG for Insurance Companies (POJK Number: 73/POJK.05/2016). This step aims to implement Article 11, paragraph (2) of the Insurance Law. The previous regulation (POJK Number: 2/POJK.05/2014) is still valid. It does not contradict the rules (POJK Number: 73/POJK.05/2016). However, the regulation (POJK Number: 73/POJK.05/2016) has changed to (POJK Number 43/POJK.05/2019) regarding Amendments to (POJK Number 73/POJK.05/2016) about GCG for Insurance Companies.

Meanwhile, in the banking sector, in 2016, regulations (POJK Number: 55/POJK.03/2016) regarding the Practices of Governance for Commercial Banks. Banks must apply the principles of good governance in their venture action. The aim is to improve bank performance, safeguard stakeholders' interests, and improve discipline with laws and regulations while maintaining ethical values in the banking business. As a follow-up to the issuance of this regulation, OJK issued a Circular (SEOJK Number: 13/SEOJK.03/2017) regarding the Practices of Governance for Commercial Banks. This step aims to regulate governance practices for commercial banks.

Each country has its way and method of eradicating corruption. However, the government's alignment in fighting corruption shows that corruption is a crime that can harm the nation and state, and it is one of the causes of poverty (Okparizan & Andika, 2020). Regarding the regulatory framework, in 2015, the Law was passed (Lieu of Acts Number 1 of 2015) as Amendments to Law Number 30 of 2002 regarding the Corruption Eradication Commission. The goal is to maintain the continuity of Indonesia's efforts to muzzle and destroy corruption. The government passed this regulation because the Corruption Eradication Commission leadership was a vacuum. At that time, the administration of the KPK was less than 3 (three) commissioners, which should have consisted of 5 (five) members who also served as members. However, since October 17, 2019 (Lieu of Acts Number 1 of 2015) has been amended to (Law Number 19 of 2019) concerning the Second Change to Law Number 30 of 2002 on the Corruption Eradication Commission. This step aims to increase the synergy between the Police, the Attorney General's Office, and the Corruption Eradication Commission as agencies that deal with corruption matters.

To support the implementation of the G20/OECD Principles of Corporate Governance (2015), on December 3, 2015, the OJK collaborated with the OECD to launch The New G20/OECD Principles of Corporate Governance. The G20/OECD (2015) Corporate Governance Principles update the previous version, including recommendations on shareholder rights, executive honorarium, financial statement disclosure, organizational investor behaviour, and how market mechanisms should work. Implementing the Principles of Corporate Governance G20/OECD (2015) aims to boost economic development and the sustainability of the financial services sector (Press Release No. SP 98/DKNS/OJK/12/2015).

The Ministry of BUMN is also working with the International Finance Corporation (IFC) to improve GCG in director's and commissioners' roles. This collaboration includes corporate governance training, governance assessment, and providing input and improvement plans to strengthen corporate governance in BUMN. Secretary of BUMN Susyanto signed a Memorandum of Understanding with IFC East Asia & Pacific Regional Director Vivek Pathak, attended by Deputy Minister of BUMN I Budi Gunadi Sadikin (Ministry of BUMN, 2020).

Despite several improvement efforts, GCG practices in Indonesia are still inadequate. One of the scandals that hit GCG's performance was the *Jiwasraya* financial scandal. Due to poor implementation of GCG and weak control of the Financial Services Authority, *Jiwasraya* was unsuccessful in shelling out the JS Saving Plan policy demand of eight hundred and two billion rupiah in 2018 (Sayekti, 2020). *Jiwasraya*'s poor financial condition was due to the company investing in second and third-tier stocks towards the quarter or the year's close to "beautify"

its financial records (window dressing). According to the Supreme Audit Board (BPK), the price of shares invested by *Jiwasraya* always “jumps” towards the end of the year, and then the stakes are resold on January 2 of the following year. The year-end financial report will note that *Jiwasraya*'s investment results were profitable because the shares purchased were below the market price (false profit). However, the company has suffered losses (Adityowati, 2020).

### **The Need for Government Presence in GCG Framework Setting**

The history of the development of GCG discussed in the previous section reveals that the government has carried out a reform movement to implement GCG. It should be realized that GCG reform in Indonesia requires a prolonged and severe step. GCG is not a one-time project that can do according to our wishes and time. Many aspects still need attention, especially ensuring the management of the business world in a professional, ethical and responsible manner.

The essence of Good Corporate Governance “GCG” is a mechanism to direct, manage and control the company (Khongmalai & Distanont, 2017). The implementation of effective GCG can make an essential contribution to improving economic conditions and avoiding crises and similar failures in the future (Qolbia, 2017).

According to Napitupulu., Situngkir., Basuki., & Nugroho (2020), effective GCG implementation will improve the company's overall performance. GCG structures and practices result in quality company policies and growth, implement management succession effectively and increase the company's competitiveness in the long term (Daniri, 2014).

A similar view is stated by Cabalu (2015). He said that if the government wishes to improve the company's performance and attract capital, the consistent and effective implementation of GCG will support that direction. The practical implementation of GCG also plays an essential role in the economy by reducing the negative effect of higher product market competition (PMC) on company performance (Liu, Qu, & Haman, 2018).

Jiao (2020) also suggests that GCG impacts financial performance and plays an essential role in the company's future development. Meanwhile, Jain and Bagga (2021) revealed that companies implement GCG to strengthen the relationship between the owners and the company's board of directors. A study by Khongmalai and Distanont (2017) with a sample of 38 Thai companies reveals that GCG has become a vital component in encouraging the company's operational efficiency. They also believe that the application of GCG principles can increase company value. The broad literature also strengthens this view (Ekasari & Noegroho, 2020; Bandiyono, 2019; Purbopangestu & Subowo, 2014).

The benefits of formulating the GCG framework by the government are not only for immediate necessity but also for long-term purposes. GCG can be the central pillar supporting the company's growth and development and a post of winning the era of global competition. Some factors significantly influence the success of GCG implementation. One is the government's support for implementing GCG as a regulator. The government must establish regulations to increase the company's commitment to implementing GCG (Wahyudin & Solikhah, 2017).

Indonesia's position in implementing GCG in Southeast Asia is getting better quantitatively. The 2019 ASEAN Corporate Governance Scorecard (ACGS) proves this. ACGS is part of the ASEAN Corporate Governance Initiative, introduced by the ASEAN Capital Markets Forum (ACMF) in 2011 to improve GCG standards and practices, particularly for public companies in ASEAN. ACMF organizes ACGS to increase investor confidence in quality in the ASEAN region.

In addition to Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam also perform this ranking. Each ASEAN country appoints Domestic Ranking Bodies (DRB) and

CG Experts to assess companies in ASEAN based on ACGS criteria. Five aspects of the assessment included in the scorecard are shareholder rights, fair treatment of shareholders, the role of stakeholders, openness and transparency, and finally, the board of commissioners and directors.

ACGS noted that ten Indonesian Public Companies are included in the ASEAN Asset Class category, which is considered to have “good corporate governance” and deserve the attention of global investors. In addition, Indonesia’s ACGS rating, assessed on a bi-annual average, shows a positive growth of 0.3%, from 70.59 in 2017 to 70.8 in 2019. This increase is supported by the scores of three public companies that received the highest ACGS scores. The companies are PT Bank CIMB Niaga Tbk with 113.84 points, PT Bank Tabungan Negara (Persero) Tbk with 110.29 points, and PT Bank Rakyat Indonesia (Persero) Tbk with 110.22 points ([Asian Development Bank, 2021](#)).

Although the average score increases, Indonesia’s ACGS score is not better than the other participating countries. For this reason, support from all parties is needed to increase the ACGS score, especially the government as a regulator. To support the increase in ACGS scores, the government can conduct a series of socialization regarding GCG practices for companies. The socialization was carried out to improve the company’s performance to meet the quality of public companies in ASEAN and the international arena in the future. In addition, GCG practices accompanied by good information disclosure will increase the confidence of local and global investors to invest in the Indonesian Capital Market.

## E. CONCLUSION

The global financial crises in 1998 and 2008 have taught Indonesia that corporate governance is essential. The failure to implement corporate governance is one of the triggers of the financial crisis. Currently, efforts to practice GCG have experienced developments in the regulatory framework in Indonesia. Regulatory and supervisory institutions have also undergone reforms. For example, the Corruption Eradication Commission (“KPK”) implemented legal reform by restructuring institutions and increasing preventive measures. Meanwhile, to improve GCG, the Ministry of BUMN collaborates with the International Finance Corporation (IFC).

Apart from the existing improvement efforts, the practice of GCG in Indonesia impacts the government’s performance because it remains to leave some homework. One of the scandals that became a devastating blow to the implementation of GCG was the *Jiwasraya* financial scandal. This financial scandal is a valuable lesson for the government’s performance, especially the Financial Services Authority (OJK), which regulates and operates the insurance industry. The *Jiwasraya* financial scandal should also become a momentum for the Ministry of BUMN to enforce GCG in BUMN companies.

Implementing effective GCG has proven to impact the company’s value positively. However, effective GCG implementation can be achieved if there is support from all parties, especially the government as a regulator. Government support can be provided by issuing regulations that encourage the implementation of GCG in companies. In addition, through a series of socialization regarding GCG practices for companies. Socialization is carried out to improve the company’s performance by increasing investors’ trust to invest in the company.

GCG is a powerful tool to prevent financial crises and corruption. In this case, the direction of GCG is to meet business demands and voluntary awareness as an essential part of business ethics.

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