



# The Role of Good Corporate Governance in Economic Stability

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## Abstract

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Poor corporate and governmental governance leads to serious consequences, both legally and economically. Corruption, abuse of power, and weak accountability undermine public and investor trust, thereby reducing national economic stability. In the Indonesian context, the practice of Good Corporate Governance (GCG) is viewed as an essential instrument to prevent crises and strengthen legal legitimacy. Nevertheless, the implementation of GCG is often hindered by agency problems, weak law enforcement, and entrenched corrupt practices. This study employs a normative juridical method by analyzing regulations, business practices, and corruption cases within both the public and private sectors. The findings indicate that GCG plays a preventive role against corruption and institutional dysfunction, while also serving as a vital mechanism for ensuring justice, transparency, and business sustainability. Therefore, strengthening regulatory frameworks, enhancing law enforcement, and maintaining policy consistency are key strategies for establishing effective governance in Indonesia, ensuring that GCG contributes to long-term economic resilience and institutional integrity.

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## 1. Introduction

Good Corporate Governance (GCG) is one of the important topics that continues to be a concern in the development of law and the economy in Indonesia. The principles of GCG are not only related to aspects of transparency and accountability within the company but also function as a mechanism for preventing practices of abuse of authority and corruption that can damage public and investor confidence.<sup>1</sup> Indonesia's experience in facing the 1997 Asian financial crisis and the 2008 global crisis shows that weak corporate and government governance worsened the impact of the crisis and eroded the legal legitimacy in the organization of the private and public sectors.

One fundamental obstacle in implementing GCG is the emergence of the agency problem.<sup>2</sup> The conflict of interest between shareholders as the principal and managers as the agent often creates the risk of abuse of power, which can have implications for financial losses and damage the company's reputation. In the context of Indonesia, this phenomenon is often associated with corrupt practices in companies and the weak internal and external supervisory systems, causing the implementation of GCG to fail in realizing its main goals: transparency and accountability.<sup>3</sup>

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<sup>1</sup> Miranda Tanjung. "A cross-firm analysis of corporate governance compliance and performance in Indonesia." *Managerial Auditing Journal* 35, no. 5 (2020): 621-643.

<sup>2</sup> Soonwook Hong. "Corporate governance and agency problems." *International Journal of Economics and Business Research* 17, no. 1 (2019): 70-86.

<sup>3</sup> Amran Suadi. "Law Enforcement against Corruption in the Criminal Justice System in Indonesia." *Annals of the Romanian Society for Cell Biology* 25, no. 6 (2021): 4586-4591.

In addition to the agency problem, weak law enforcement is a significant factor exacerbating the governance conditions in Indonesia. Regulations regarding GCG are indeed available, such as Law Number 40 of 2007 concerning Limited Liability Companies and POJK Number 21/POJK.04/2015. However, the implementation of these rules is often not optimal because it is constrained by structural and cultural issues within the bureaucracy.<sup>4</sup> A clear example can be seen in the cases within State-Owned Enterprises (*Badan Usaha Milik Negara* /BUMN), where corrupt practices still frequently occur even though GCG standards have been adopted as guidelines in business activities.<sup>5</sup>

The weaknesses in regulatory implementation and governance directly impact the national economy. When investor confidence in the domestic market decreases due to corruption and regulatory uncertainty, the capital outflow increases, and new investment decreases. This situation then pressures the performance of the capital market and slows down national economic growth.<sup>6</sup> This situation confirms that good governance is not just a matter of compliance with legal norms, but also a fundamental strategy to maintain economic stability and business continuity in the long term.

Thus, academic studies regarding GCG in Indonesia should be analyzed through a normative juridical approach. This perspective emphasizes how the

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<sup>4</sup> Tiyas Kurnia Sari, Fitra Roman Cahaya, and Corina Joseph. "Coercive pressures and anti-corruption reporting: the case of ASEAN countries." *Journal of Business Ethics* (2021): 495-511.

<sup>5</sup> Miranda Tanjung. "A cross-firm analysis of corporate governance compliance and performance in Indonesia." *Managerial Auditing Journal* 35, no. 5 (2020): 621-643.

<sup>6</sup> I. Made Pradana Adiputra, Sidharta Utama, and Hilda Rossieta. "Transparency of local government in Indonesia." *Asian Journal of Accounting Research* 3, no. 1 (2018): 123-138.

existence of regulations should be able to reduce corrupt practices and agency conflicts. The normative juridical approach highlights the connection between legal norms, the effectiveness of rules, and actual implementation in daily business practices. Therefore, this type of research not only reviews the existence of written rules but also links them to structural obstacles, weak law enforcement, unsupportive organizational culture, and the influence of global economic crisis dynamics.<sup>7</sup>

Furthermore, strengthening the principles of GCG in Indonesia is important as a mechanism for preventing economic crises and political instability. Governance reforms after various crises should be a strategic momentum to strengthen the legal system, enhance the integrity of supervisory institutions, and build corporate awareness of the importance of applying the principles of transparency, accountability, independence, and fairness.<sup>8</sup> With consistent governance strengthening, the risk of corrupt practices can be suppressed, investor confidence can be increased, and national economic stability is more secure. Ultimately, the effective implementation of GCG will serve as a solid foundation for the sustainability of the Indonesian economy in the future.

## 2. Literature Review

Studies on Good Corporate Governance (GCG) in Indonesia continue to develop along with the increasing need to strengthen the principles of transparency,

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<sup>7</sup> Amran Suadi. "Law Enforcement against Corruption in the Criminal Justice System in Indonesia." *Annals of the Romanian Society for Cell Biology* 25, no. 6 (2021): 4586-4591.

<sup>8</sup> Miranda Tanjung. "A cross-firm analysis of corporate governance compliance and performance in Indonesia." *Managerial Auditing Journal* 35, no. 5 (2020): 621-643.

accountability, independence, and fairness in both the public and private sectors. Following the 1997 Asian financial crisis, the government sought to build a more robust governance system through the introduction of various regulations, corporate codes of ethics, and legal instruments as an effort to prevent corrupt practices.<sup>9</sup> Although there are quite a number of these legal instruments, their effectiveness is often questioned due to weak implementation and the low integrity of law enforcement officials in upholding them.<sup>10</sup>

One important issue widely discussed in the literature is the agency problem. The relationship between the principal and the agent often gives rise to conflicts of interest that encourage opportunistic behavior, such as the use of company assets for personal gain.<sup>11</sup> Research indicates that weak audit mechanisms and internal supervision further worsen this problem, rendering the goals of GCG ineffective.<sup>12</sup> The impact is not only financial losses but also damage to the company's reputation in the eyes of the public and investors. This condition can ultimately affect the stability of the capital market, which is highly dependent on investor confidence.

The literature also links weak corporate governance with an increased risk of economic crisis. Corrupt practices, abuse of authority, and low legal certainty are the main factors that reduce investment interest and accelerate the outflow of capital

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<sup>9</sup> Miranda Tanjung. "A cross-firm analysis of corporate governance compliance and performance in Indonesia." *Managerial Auditing Journal* 35, no. 5 (2020): 621-643.

<sup>10</sup> Amran Suadi. "Law Enforcement against Corruption in the Criminal Justice System in Indonesia." *Annals of the Romanian Society for Cell Biology* 25, no. 6 (2021): 4586-4591.

<sup>11</sup> Ashgar Zardkoohi, Joseph S. Harrison, and Mathew A. Josefy. "Conflict and confluence: The multidimensionality of opportunism in principal-agent relationships." *Journal of Business Ethics* 146, no. 2 (2017): 405-417.

<sup>12</sup> Miranda Tanjung. "A cross-firm analysis of corporate governance compliance and performance in Indonesia." *Managerial Auditing Journal* 35, no. 5 (2020): 621-643.

from the domestic market.<sup>13</sup> This was evident when the 2008 global crisis hit, where Indonesia faced enormous pressure due to a drop in investor confidence in the transparency and accountability of domestic companies.<sup>14</sup> From this, it can be understood that good governance plays a role as a preventive instrument to prevent national economic instability.

Recent studies affirm that GCG has both a normative and a practical function. Normatively, GCG is based on the Limited Liability Company Law (*Perseroan Terbatas/PT*) and (Financial Services Authority (*Otoritas Jasa Keuangan/OJK*) regulations that govern the governance of public companies.<sup>15</sup> Meanwhile, from a practical perspective, the application of the principles of transparency, accountability, independence, and equality still faces serious obstacles in the form of bureaucratic culture and internal resistance within companies and state institutions.<sup>16</sup> Therefore, researchers emphasize the need for alignment between legal regulations, organizational culture, and the strengthening of the role of supervisory institutions so that the effectiveness of GCG can truly be realized in the long term.

Overall, previous studies assess that the implementation of GCG in Indonesia has not been completely successful in overcoming corrupt practices and agency problems. However, the literature places GCG as a strategic mechanism that cannot

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<sup>13</sup> Rebecca L Perlman, and Alan O. Sykes. "The political economy of the foreign corrupt practices act: An exploratory analysis." *Journal of Legal Analysis* 9, no. 2 (2017): 153-182.

<sup>14</sup> I. Made Pradana Adiputra, Sidharta Utama, and Hilda Rossieta. "Transparency of local government in Indonesia." *Asian Journal of Accounting Research* 3, no. 1 (2018): 123-138.

<sup>15</sup> Cynthia Afriani Utama, Sidharta Utama, and Fitriany Amarullah. "Corporate governance and ownership structure: Indonesia evidence." *Corporate Governance: The international journal of business in society* 17, no. 2 (2017): 165-191.

<sup>16</sup> Tiyas Kurnia Sari, Fitra Roman Cahaya, and Corina Joseph. "Coercive pressures and anti-corruption reporting: the case of ASEAN countries." *Journal of Business Ethics* (2021): 495-511.

be ignored because it functions to strengthen the integrity of the legal system, maintain investor confidence, and support the sustainability of national economic development. By improving regulations and strengthening implementation, GCG is still considered an important pillar for Indonesia's future economic stability.

### **3. Method**

This research uses the normative juridical method, which is an approach that focuses on the analysis of written legal norms, doctrines, and regulations governing corporate and government governance in Indonesia. The selection of this method is based on the fact that the main problem of the research originates from positive law that regulates Good Corporate Governance (GCG) and the application of the principles of transparency, accountability, independence, and equality in business practices and public administration. The normative juridical method starts from the principle that law is not only understood as a collection of rules but also as a means to achieve certainty, justice, and social order. In the context of governance, this method allows researchers to assess the alignment and relevance of applicable legal norms whether in the form of laws, financial services authority regulations, or other regulations with globally recognized GCG principles.

The types of data in this research include primary, secondary, and tertiary legal materials. Primary legal materials consist of statutory regulations, including Law Number 40 of 2007 concerning Limited Liability Companies and Financial Services Authority Regulation Number 21/POJK.04/2015 regarding the application of GCG to issuers or public companies. Meanwhile, secondary legal materials include

literature, academic articles, legal journals, and previous research results relevant to the GCG issue. Tertiary legal materials are legal dictionaries, encyclopedias, and indexes used to clarify concepts or terms. Analysis is carried out through systematic interpretation by interpreting legal rules based on the structure and interconnections between norms. In addition, teleological interpretation is also used to understand the purpose of forming the regulation.

This research also adopts a conceptual approach to examine the relationship between legal norms and ideal governance principles, and a comparative approach to compare the application of governance in Indonesia with international standards. Through the application of the normative juridical method, the research is expected to provide a comprehensive understanding of the level of effectiveness and suitability of GCG regulations in Indonesia. Furthermore, this method is useful for identifying the gap between written rules and practice in the field. Thus, this research can formulate strategic recommendations to strengthen GCG implementation and law enforcement in dealing with corruption problems, agency problems, and the potential for economic crises.

## **4. Results**

### **4.1. Corporate and Government Governance in Legal and Practical Perspectives**

Corporate and government governance in Indonesia is still facing complex challenges, even though the existing regulations can be said to be relatively comprehensive. Law Number 40 of 2007 concerning Limited Liability Companies,

accompanied by various rules issued by the Financial Services Authority, has essentially become the main legal foundation in encouraging the implementation of Good Corporate Governance (GCG). However, the reality of its implementation is still far from expected. The core principles such as transparency, accountability, independence, and equality are often hampered by the weak commitment of related institutions and the persistent corrupt behavior in various sectors.<sup>17</sup>

A number of studies reveal that in the corporate sector, especially in State-Owned Enterprises (BUMN), corrupt practices still frequently occur even though these companies have used GCG guidelines.<sup>18</sup> This phenomenon confirms a large gap between the prevailing legal norms and their implementation in the field. One of the main causes is the emergence of conflicts of interest stemming from the agency problem. In many cases, managers tend to prioritize personal gain over the interests of the shareholders. This shows that although formal regulations are available, substantially their implementation is still not working as hoped.<sup>19</sup>

In government, the problem of governance is quite evident through the rampant practice of abuse of authority, low budget openness, and the emergence of public policies that often do not side with the needs of the wider community. This weakness is closely related to inconsistent law enforcement, especially in handling

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<sup>17</sup> Miranda Tanjung. "A cross-firm analysis of corporate governance compliance and performance in Indonesia." *Managerial Auditing Journal* 35, no. 5 (2020): 621-643.

<sup>18</sup> Junino Jahja, Nor Farizal Mohammed, Norziana Lokman, and Norazida Mohamed. "Corporate governance, managerial diversion, and Indonesian state-owned enterprises: a literature review." *International Journal of Financial Research* 11, no. 5 (2020): 510-517.

<sup>19</sup> J. Alberto Aragón-Correa, Alfred A. Marcus, and David Vogel. "The effects of mandatory and voluntary regulatory pressures on firms' environmental strategies: A review and recommendations for future research." *Academy of Management Annals* 14, no. 1 (2020): 339-365.

corruption crimes. Suadi's research<sup>20</sup> emphasizes that although Indonesia has legal instruments in the form of a special law regarding corruption, in reality, the implementation process in the judicial sphere is still often influenced by political factors, bureaucracy, and the interests of certain parties.

Poor quality governance has a broad impact, not only on legal legitimacy but also on national economic stability. The legal uncertainty that arises due to the weak implementation of regulations makes domestic and foreign investors increasingly hesitant to invest their capital. This condition encourages a decrease in interest in new investments and accelerates the occurrence of capital outflow. The impact is felt directly in the capital market, which is characterized by the weakening of stock prices and an increase in unemployment rates in the community.<sup>21</sup> Thus, the application of effective governance is not just a matter of formal law, but also a fundamental element in ensuring economic sustainability and creating a healthy investment climate.

From the results of the analysis, it can be seen that ideal corporate and government governance has not been fully realized in Indonesia. The biggest obstacles stem from weak prevailing legal culture, low institutional accountability, and the persistent practice of corruption involving public officials and corporate entities. For this reason, the required remedial steps include strengthening the

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<sup>21</sup> I. Made Pradana Adiputra, Sidharta Utama, and Hilda Rossieta. "Transparency of local government in Indonesia." *Asian Journal of Accounting Research* 3, no. 1 (2018): 123-138.

supervision system to be more effective, comprehensive bureaucratic reform, and consistency in enforcing the regulations that have been made.

With these strategic steps, GCG can truly function as an instrument for preventing corrupt practices and abuse of authority. Furthermore, the application of consistent governance will provide assurance of business sustainability while strengthening legal legitimacy and investor confidence. Ultimately, improving governance in the corporate and government sectors is a decisive factor in maintaining Indonesia's economic stability, as well as building a strong foundation for sustainable growth.

#### **4.2. Good Corporate Governance as an Instrument for Crisis and Corruption Prevention**

Good Corporate Governance (GCG) is viewed as one of the key instruments in the effort to prevent economic crises and corrupt practices. The principles contained therein, namely transparency, accountability, responsibility, independence, and equality, are believed to be able to create a healthy and competitive business climate. A number of studies show that countries that successfully integrate GCG into their legal systems and business practices have better resilience in the face of global crisis turmoil.<sup>22</sup> In other words, GCG is not just a normative framework, but also a fundamental strategy for sustainable economic development.

In the context of Indonesia, GCG is expected to function to reduce the possibility of repeating economic crises triggered by weak supervision and non-

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transparent business practices. Following the 1997 Asian financial crisis and the 2008 global crisis, the Indonesian government issued various policies to strengthen governance regulations. These legal instruments and policies were designed to support a more accountable business system. However, their effectiveness is still considered limited because implementation in the field is often inconsistent with the normative rules that have been formulated.<sup>23</sup> In addition to serving as a legal tool, GCG also plays an important role as a mechanism for building trust between the company and stakeholders. If the principles of transparency and accountability are implemented seriously, the company's reputation and credibility will increase, thereby strengthening the company's position at the global level.<sup>24</sup>

However, if the application of GCG is only a formality without internalizing its values, stakeholder trust will be eroded, which in turn weakens the company's competitiveness. In relation to the eradication of corruption, the contribution of GCG cannot be ignored. The presence of an effective internal audit system, independent supervision, and public information disclosure provides a smaller opportunity for agents to commit abuse of authority. Nevertheless, a number of studies reveal that the weak integrity of supervisory institutions often becomes a factor that worsens GCG implementation. This causes the ideal governance principles to be difficult to achieve in actual practice.<sup>25</sup> At the macro level,

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<sup>23</sup> Tiyas Kurnia Sari, Fitra Roman Cahaya, and Corina Joseph. "Coercive pressures and anti-corruption reporting: the case of ASEAN countries." *Journal of Business Ethics* (2021): 495-511.

<sup>24</sup> S. Prakash Sethi, Janet L. Rovenpor, and Mert Demir. "Enhancing the quality of reporting in Corporate Social Responsibility guidance documents: The roles of ISO 26000, Global Reporting Initiative and CSR-Sustainability Monitor." *Business and Society Review* 122, no. 2 (2017): 139-163.

<sup>25</sup> Amran Suadi. "Law Enforcement against Corruption in the Criminal Justice System in Indonesia." *Annals of the Romanian Society for Cell Biology* 25, no. 6 (2021): 4586-4591.

consistently implemented GCG is capable of functioning as a protector of national economic stability. Increased investor confidence will encourage a more stable flow of foreign capital, strengthen the condition of the capital market, and minimize the risk of a crisis occurring.

Therefore, the implementation of GCG in Indonesia should be viewed not only as a normative obligation that must be complied with by companies but also as part of a national strategy in facing the challenges of globalization and the increasingly complex dynamics of the international market (Adiputra et al., 2018).<sup>26</sup> Based on this description, the results of this research confirm that strengthening GCG in Indonesia needs to be done comprehensively through regulatory reform, increasing integrity in law enforcement, and internalizing governance principles into the company's organizational culture. This effort will not only strengthen investor and public trust but also reduce the risk of corrupt practices that are still prevalent. With more solid governance, GCG can carry out its role optimally as a preventive mechanism against corruption as well as the main protector of the Indonesian economy from the potential for crises in the future.

## **5. Discussion**

The results of this study indicate that the application of Good Corporate Governance (GCG) in Indonesia has not yet reached an optimal level, even though the normative legal framework supporting it is relatively complete. The biggest

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<sup>26</sup> I. Made Pradana Adiputra, Sidharta Utama, and Hilda Rossieta. "Transparency of local government in Indonesia." *Asian Journal of Accounting Research* 3, no. 1 (2018): 123-138.

obstacles arise in the aspect of weak law enforcement and corrupt practices that have become deeply rooted in bureaucratic culture and vested interests.<sup>27</sup> Thus, the problem faced is not the absence of regulation, but the weak consistency in the implementation of the law.

One important finding relates to the agency problem that creates conflicts of interest between managers and shareholders. Agents often prioritize personal interests or the interests of certain groups over the interests of the company as a whole.<sup>28</sup> This condition causes losses for investors and other stakeholders. The situation becomes even more complex when the supervision system, both internal and external, cannot work optimally. Therefore, governance improvement requires a combination of legal norms, effective audit mechanisms, and the formation of an organizational culture focused on long-term interests.<sup>29</sup>

Academic discourse also confirms the close link between weak governance and vulnerability to economic crises. Two major experiences, the 1997 monetary crisis and the 2008 global crisis, showed how weak governance worsened the impact caused. Legal uncertainty and low transparency encouraged investors to withdraw their capital, which ultimately exacerbated the weakening of the exchange rate and the national financial market.<sup>30</sup> Therefore, GCG is not only related to aspects of legal

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<sup>27</sup> Erin Metz McDonnell. "Patchwork leviathan: How pockets of bureaucratic governance flourish within institutionally diverse developing states." *American Sociological Review* 82, no. 3 (2017): 476-510.

<sup>28</sup> Jiao Luo, and Aseem Kaul. "Private action in public interest: The comparative governance of social issues." *Strategic Management Journal* 40, no. 4 (2019): 476-502.

<sup>29</sup> Kolade Olusola Oguniola, Emmanuel Damilare Balogun, and Adebunji Samuel Ogunmoke. "Enhancing financial integrity through an advanced internal audit risk assessment and governance model." *International Journal of Multidisciplinary Research and Growth Evaluation* 2, no. 1 (2021): 781-790.

<sup>30</sup> I. Made Pradana Adiputra, Sidharta Utama, and Hilda Rossieta. "Transparency of local government in Indonesia." *Asian Journal of Accounting Research* 3, no. 1 (2018): 123-138.

compliance but also functions as a macroeconomic instrument to maintain investment stability. Furthermore, law enforcement is an important element in supporting the effectiveness of GCG. Research conducted by Suadi,<sup>31</sup> asserts that although corruption eradication regulations exist, judicial practice still faces serious constraints in the form of political intervention, weak independence of law enforcement officials, and cultural resistance to transparency. This results in inconsistent legal implementation, often focusing only on certain cases without addressing the systemic roots of the problem.

Nevertheless, GCG is still viewed as an important preventive instrument to reduce the opportunity for corruption to occur.<sup>32</sup> The application of independent audits, open supervision mechanisms, and active participation from stakeholders can narrow the space for abuse of authority. On the other hand, the implementation of governance principles also contributes to improving the company's reputation while strengthening its competitive position in the international arena.<sup>33</sup> Thus, GCG has a dual role, namely as a legal mechanism as well as a strategy for sustainable economic development. In addition, governance reform demands synergy between the government, the private sector, and civil society. Change cannot be carried out partially but requires a collaborative approach that emphasizes the integrity of

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<sup>31</sup> Amran Suadi. "Law Enforcement against Corruption in the Criminal Justice System in Indonesia." *Annals of the Romanian Society for Cell Biology* 25, no. 6 (2021): 4586-4591.

<sup>32</sup> Ali Rehman and Fathyah Hashim. "Impact of fraud preventive measures on good corporate governance." *Journal of Corporate Governance Research* 4, no. 1 (2020): 35-58.

<sup>33</sup> Tiyas Kurnia Sari, Fitra Roman Cahaya, and Corina Joseph. "Coercive pressures and anti-corruption reporting: the case of ASEAN countries." *Journal of Business Ethics* (2021): 495-511.

supervisory institutions, regulatory renewal, and the formation of a pro-transparency organizational culture.

If this step is carried out, GCG will not only function as a formal obligation but will become a collective awareness to strengthen justice, transparency, and economic sustainability.<sup>34</sup> Thus, it can be emphasized that GCG in Indonesia has great potential in preventing the recurrence of crises and suppressing corrupt practices. However, its success is highly determined by the consistency of law enforcement, the integrity of institutions, and the real commitment of companies and the government to internalize the principles of governance in every policy and business activity.

## 6. Conclusion

This research affirms that the application of Good Corporate Governance (GCG) in Indonesia is still facing major challenges despite the existence of relatively comprehensive regulations. The main obstacles lie in weak law enforcement, the prevalence of corrupt practices, and the agency problem that creates conflicts of interest between agents and principals. The gap between legal norms and actual practice results in GCG not fully functioning as an instrument to curb corruption and maintain economic stability. On the other hand, GCG is proven to have a strategic function as a prevention mechanism against economic crises and the abuse of authority.

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<sup>34</sup> Miranda Tanjung. "A cross-firm analysis of corporate governance compliance and performance in Indonesia." *Managerial Auditing Journal* 35, no. 5 (2020): 621-643.

With the application of the principles of transparency, accountability, independence, and equality, GCG has the potential to strengthen investor confidence, enhance legal legitimacy, and support business sustainability. However, this success is highly dependent on the consistency of regulatory implementation, the integrity of supervisory institutions, and an organizational culture that supports clean governance and is oriented towards public interest. Therefore, this research suggests that governance reform should be carried out comprehensively through strengthening regulations, improving the integrity of law enforcement officials, and harmonizing legal norms and business practices. Thus, GCG will not only be a formal obligation but also a normative and practical foundation for building a more just, transparent, and sustainable Indonesian economy.

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