Vol 8 No. 6 Juni 2024
Jurnal Ilmiah Kajian Multidisipliner eISSN: 2118-7302

THE IMPLEMENTATION OF GOOD CORPORATE GOVERNANCE: A COMPARISON BETWEEN INDONESIA AND MALAYSIA

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ABSTRACT
The implementation of Good Corporate Governance (GCG) is crucial for companies to maintain economic stability, enhance investor confidence, and achieve sustainable growth. This study compares the journey of GCG implementation in Malaysia and Indonesia, two countries with different cultural, historical, and regulatory contexts. In Malaysia, the government and regulators play a significant role in shaping GCG policies through the Malaysian Code on Corporate Governance (MCCG), while in Indonesia, GCG regulations are issued by the Financial Services Authority (OJK) and the Capital Market and Financial Institution Supervisory Agency (Bapepam-LK). Although both countries have achieved success in improving transparency, accountability, and investor participation, challenges such as corruption, weak law enforcement, and implementation costs remain areas of concern. With strong commitment from all stakeholders, and consistent support from the government and regulators, Malaysia and Indonesia can continue to strengthen their GCG practices to create a more stable, reliable, and sustainable business environment, which will provide long-term benefits for economic growth and societal well-being.
Keywords: *Good Corporate Governance (GCG), Economic stability, Investor confidence, Sustainable growth, Malaysia, Indonesia*

INTRODUCTION

The shifts in the 21st century have made the adoption of Good Corporate Governance (GCG) crucial for organizations of all sizes, whether they are large or medium-scale. Both large and medium-sized companies need to embrace the concept of GCG, even though their approaches to implementation may differ (Dak-Adzaklo & Wong, 2024). The implementation of GCG involves the distribution of power and responsibilities, along with the associated consequences and accountability for the organization's performance and achievements.

The financial crisis that struck Asia in the late 1990s, particularly affecting Indonesia, posed severe challenges for people from all walks of life. major contributing factor to the economic turmoil in Indonesia and other Asian nations was the widespread poor corporate governance across both public and private sectors. This heightened attention on corporate governance was also fueled by notorious scandals involving companies like Enron, Worldcom, Tyco, London & Commonwealth, Poly Peck, Maxwell, and others (Tjahjadi et al., 2021). These corporate collapses were primarily due to strategic missteps and fraudulent activities by senior management, which went undetected for extended periods due to the lack of robust and independent board oversight.

In various cases, poor company performance is attributed to several factors, including the failure to conduct effective monitoring and strategic planning. Another

factor contributing to poor performance is the violation of business ethics. Practices such as bribery, corruption, and nepotism are prevalent in the business environment of Indonesia and other countries (Rodriguez-Fernandez, 2016). However, the economic crisis has heightened awareness among the government, business community, and the general public about the importance of implementing Good Corporate Governance (GCG). The adoption of GCG has become a central issue in supporting economic recovery and fostering stable and sustainable economic growth in the future. In the era of globalization, companies are required to understand and apply GCG principles in accordance with established regulations (Wardani & Nurhayati, 2021).

The increasing number and complexity of stakeholders involved with companies, such as suppliers, creditors, investors, and the government, have driven the need for effective corporate governance. Rapid economic development alongside globalization requires companies to adapt accordingly. Therefore, an appropriate managerial processing and control system is necessary for each company. Implementing Good Corporate Governance (GCG) is expected to bring positive contributions to both internal and external stakeholders (Luthan et al., 2016). Business actors in Indonesia have recognized the importance of GCG as a good corporate governance system, as evidenced by the signing of the Letter of Intent (LOI) with the IMF in 1998, which included a schedule for improving corporate governance in Indonesia. This led to the establishment of the National Committee on Corporate Governance Policy (KNKCG) in 1999, based on the decision of the Coordinating Minister for Economic Affairs No: KEP/31/M.EKUIN/08/1999 (Achjari & Suryaningsum, 2010). The general guidelines for GCG have been refined several times, most recently in 2001. These guidelines were published to provide Indonesian companies with a framework for implementing GCG principles, including recommendations for the disclosure of GCG practices (Zahrawani et al., 2021).

The implementation of Good Corporate Governance (GCG) in Malaysia has gained significant attention in recent years, driven by the need to enhance transparency, accountability, and sustainability within the corporate sector. The Malaysian government and regulatory bodies have introduced various frameworks and guidelines to promote GCG practices among companies (Hormati et al., 2022). A notable example is the Malaysian Code on Corporate Governance (MCCG), which has undergone several revisions to reflect evolving best practices. This code outlines key principles and best practices aimed at achieving high standards of governance (Suwandi et al., 2019). Despite these initiatives, challenges persist, such as ensuring consistent compliance across different industries and addressing the diverse needs of stakeholders, including investors, regulators, and the public (Tjahjadi et al., 2021).

High-profile corporate scandals have highlighted the urgent need for robust governance mechanisms in Malaysia. These incidents have underscored the importance of strong oversight and effective implementation of GCG principles to prevent misconduct and maintain investor confidence. As Malaysia continues to integrate with the global economy, the emphasis on GCG is crucial for fostering long-term economic growth and stability (Dak-Adzaklo & Wong, 2024). Efforts to strengthen GCG include ongoing education and training for board members and executives to ensure they are well-versed in governance principles and practices. This comprehensive approach is essential for building

a resilient corporate sector that can withstand challenges and contribute to the nation's economic development (Rodriguez-Fernandez, 2016).

The purpose of comparing Good Corporate Governance (GCG) between Malaysia and Indonesia is to identify best practices and areas for improvement in each country's corporate governance frameworks. By examining the similarities and differences in their GCG implementation, regulatory environments, and responses to corporate governance challenges, stakeholders can gain insights into effective governance strategies. This comparison also highlights how each country addresses issues such as transparency, accountability, and stakeholder engagement, providing valuable lessons that can enhance governance practices. Ultimately, such a comparative analysis aims to foster a more robust and sustainable corporate governance culture in both Malaysia and Indonesia, contributing to economic stability and growth in the region.

METHODS

To conduct a comparative study of Good Corporate Governance (GCG) practices between Malaysia and Indonesia, we will employ a literature review methodology. This approach involves systematically collecting, analyzing, and synthesizing existing research and publications related to GCG in both countries. The primary sources of literature will include academic journals, books, government reports, regulatory documents, and case studies on corporate governance. By reviewing these sources, we can identify the key principles, frameworks, and guidelines that define GCG practices in Malaysia and Indonesia. Additionally, the literature review will enable us to understand the historical evolution of corporate governance in both countries, as well as the regulatory reforms and initiatives undertaken to enhance GCG.

The literature review will be structured to compare and contrast various aspects of GCG, such as regulatory environments, compliance levels, and the effectiveness of governance mechanisms. This will involve categorizing the findings into themes such as transparency, accountability, stakeholder engagement, and the impact of corporate scandals. By synthesizing the information, we can draw meaningful conclusions about the strengths and weaknesses of GCG practices in each country. The insights gained from this comparative analysis will provide a comprehensive understanding of how Malaysia and Indonesia address corporate governance challenges and can serve as a foundation for recommending improvements. This methodical approach ensures that our study is grounded in a thorough examination of existing knowledge, providing a solid basis for analysis and discussion.

RESULTS

First, BoC education has a negative effect on economic and environmental sustainability performance and no effect on social sustainability performance. Second, BoC size has a positive effect on economic sustainability performance, a negative effect on social sustainability performance and no effect on environmental sustainability performance. Third, CEO's education has a negative effect on economic sustainability performance, and no effect on environmental and social sustainability performance. Fourth, TMT size has a negative effect on economic and environmental sustainability

performance and no effect on social sustainability performance. Contributions, limitations and implications of the study are also discussed (Tjahjadi et al., 2021)

They are proof that all social policies increment financial resources, and vice versa, that increased financial performances lead to greater social benefits. As a consequence, this paper encourages all board members to seriously weigh investing financial resources in developing policies that boost the levels of social behavior components in order to contribute globally to the improvement of society (Rodriguez-Fernandez, 2016).

Positive effect of corporate governance reforms on corporate financing and investment. More importantly, we find that the positive effect of the formal regulatory reforms is more pronounced with lower levels of informal country-level trust. Further analysis shows that corporate governance reforms lead to both lower under- and over-investment, and the effect is also stronger in low-trust countries (Dak-Adzaklo & Wong, 2024).

GCG Mechanism is an independent variable that includes internal and external mechanisms. The study concluded that the effect of different GCG mechanisms to earnings management, depending on the proxy used for GCG mechanism (Luthan et al., 2016).

Findings evidence that board independence and the existence of a specific Corporate Social Responsibility (CSR)/sustainability committee constitute positive drivers of utilities' overall ESG disclosure levels. Also, board size positively influences environmental and social disclosure. The study would encourage utilities to define their internal corporate governance mechanisms carefully, devoting primary attention to an accurate selection of the board of directors members (Nicolo et al., 2023).

CONCLUSIONS

The implementation of Good Corporate Governance (GCG) has significantly impacted the enhancement of transparency, accountability, and efficiency in corporate management. In Malaysia, the success of GCG is reflected in the improved standards of financial reporting, increased investor participation in the capital market, and heightened confidence from both domestic and foreign investors. In Indonesia, GCG implementation has improved corporate governance, increased transparency, reduced operational risks, and boosted long-term investor confidence.

However, challenges such as overcoming a culture of corruption, weaknesses in the supervision and enforcement systems, and the time and costs required to implement effective GCG practices remain focal points in both countries. Despite these challenges, with strong commitment from all stakeholders and consistent support from the government and regulators, companies in Malaysia and Indonesia can continue to enhance their GCG practices to create a more stable, trustworthy, and sustainable business environment.

The implementation of GCG in Malaysia and Indonesia has positively impacted sustainable economic growth, improved societal welfare, and created a more stable and trustworthy business environment. By continually strengthening their GCG practices, both countries can reinforce their positions as attractive investment destinations and create long-term value for all involved stakeholders.

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