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IMPLEMENTATION OF GOOD CORPORATE GOVERNANCE AND CSR IN INDONESIA BUSINESS PRACTICES: LEGAL AND ETHICAL ANALYSIS

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ABSTRACT

This study examines the implementation of Good Corporate Governance (GCG) and Corporate Social Responsibility (CSR) in Indonesia, focusing on legal and ethical aspects. The research addresses the problem of weak governance and ceremonial CSR practices, particularly in small and medium enterprises (SMEs). Using a qualitative descriptive approach with secondary data from company reports and academic journals, the study analyzes GCG and CSR practices in large companies and SMEs. Findings indicate that large companies like Unilever implement robust GCG, while SMEs lack formal structures. Strategic CSR enhances reputation, but SMEs often engage in short-term philanthropy. Regulations support implementation, but enforcement is weak. Ethical practices rooted in Pancasila are crucial, yet challenges like corruption persist. The study recommends strengthening regulations and ethics education to enhance GCG and CSR effectiveness.
Keywords: Corporate Social Responsibility, Ethics, Good Corporate Governance, Indonesia, Law

INTRODUCTION

The 1997 Asian financial crisis marked a turning point, exposing significant weaknesses in corporate governance in Indonesia, characterized by financial report manipulation, corruption, and abuse of authority (Satory & Mustaqim, 2019). This crisis undermined investor confidence and market stability, highlighting the urgent need for Good Corporate Governance (GCG) to ensure transparency, accountability, responsibility, independence, and fairness in corporate operations. Additionally, Corporate Social Responsibility (CSR) emerged as a strategy to balance economic profits with social and environmental responsibilities, aligning with growing stakeholder expectations for ethical business practices (Hartini, 2022). In Indonesia, challenges such as nepotism, low compliance among small and medium enterprises (SMEs), and greenwashing in CSR practices underscore the need for in-depth research to provide practical solutions for businesses and regulators (Ningrum, 2022).

This study is relevant because GCG and CSR serve not only as tools for legal compliance but also as strategies to build competitive advantage and public trust. The

1997 crisis demonstrated that companies with weak governance are vulnerable to financial and reputational losses (Satory & Mustaqim, 2019). Furthermore, Pancasila's values, particularly social justice, require companies to contribute to societal welfare, reflected in authentic CSR programs. However, many firms, especially SMEs, face constraints such as limited resources and low ethical awareness, hindering effective implementation (Ningrum, 2022). Thus, this research is essential to identify barriers and formulate solutions tailored to the Indonesian context.

The research focuses on the implementation of GCG and CSR in Indonesian companies, encompassing large corporations (state-owned enterprises and multinationals) and SMEs. Indonesia was chosen due to its unique context, including concentrated ownership structures, a culture of mutual cooperation (gotong royong), and evolving regulations (Putra, 2022). Unlike developed countries with stringent oversight and high ethical awareness, Indonesia faces challenges such as corruption and limited managerial capacity in SMEs, making GCG and CSR implementation more complex. Comparing large corporations and SMEs enables a comprehensive analysis of practice variations and scale-appropriate solutions.

The primary variables are GCG and CSR, with law and ethics as supporting variables. GCG encompasses principles of transparency, accountability, responsibility, independence, and fairness, operationalized through mechanisms like audited reports and audit committees. CSR includes social, environmental, economic, and cultural programs, aiming to balance profit, people, and planet. Legal frameworks include regulations such as Law No. 40/2007 on Limited Liability Companies and Law No. 25/2007 on Investment, which mandate GCG and CSR obligations. Ethics involves integrity, fairness, and moral responsibility, influenced by Pancasila and gotong royong. The synergy among variables lies in the fact that strong GCG fosters an ethical culture supporting authentic CSR, while effective CSR enhances reputation and trust, reinforcing GCG.

Research gaps were identified from prior studies. Satory and Mustaqim (2019) focused on minority shareholder protection in GCG but overlooked SME implementation. Hartini (2022) described CSR types but did not analyze the impact of weak regulations. Putra (2022) discussed GCG legal frameworks but lacked in-depth ethical exploration. Ningrum (2022) highlighted ethics in GCG and CSR but did not compare practices between large firms and SMEs. This study addresses these gaps by analyzing GCG and CSR implementation across company scales, regulatory impacts, and Pancasila-based ethics, offering a more comprehensive perspective.

This research provides novelty by integrating legal, ethical, and practical analyses of GCG and CSR in Indonesia, emphasizing comparisons between large firms and SMEs.

Its benefits include guiding businesses to enhance governance and social responsibility and providing regulators with recommendations to strengthen oversight. The objectives are: (1) to analyze GCG and CSR implementation in Indonesia, (2) to evaluate supporting legal frameworks, (3) to identify ethical aspects in their practices, and (4) to propose solutions to address implementation challenges.

RESEARCH METHODS

This study employs a qualitative descriptive approach to analyze the implementation of Good Corporate Governance (GCG) and Corporate Social Responsibility (CSR) in Indonesia. This approach was chosen as it allows for an in-depth exploration of practices, legal frameworks, and ethics in the Indonesian business context without requiring quantitative data. It is suitable for capturing the complexity of governance and social responsibility across different company scales.

RESULTS AND DISCUSSION

This study yielded key findings based on secondary data analysis from corporate reports, regulations, and academic literature. The findings are organized by the main variables—GCG, CSR, law, and ethics—with a focus on comparisons between large corporations and SMEs.

5.1. Good Corporate Governance (GCG)

5.1.1. Large Corporations: PT Unilever Indonesia demonstrates robust GCG, evidenced by audited financial reports, independent audit committees, and high rankings in the Corporate Governance Perception Index (CGPI) (PT Unilever Indonesia Tbk, 2022). PT Astra International also maintains formal GCG structures, with independent boards of commissioners and transparent reporting (PT Astra International Tbk, 2023). However, the PT Garuda Indonesia case (2018) revealed transparency violations through financial report manipulation, resulting in investor losses and sanctions from the Financial Services Authority (OJK) ("Garuda Indonesia Financial Reporting Scandal," 2018).

5.1.2. SMEs: SMEs in Indonesia generally lack formal GCG structures due to limited funds and awareness. Many operate with centralized decision-making by owners, without audit committees or transparent reporting (Ningrum, 2022).

5.2. Corporate Social Responsibility (CSR)

5.2.1. Large Corporations: Strategic CSR programs were identified in several companies. For instance, Pertamina's "Sobat Bumi" initiative planted 2.5 million trees and trained 12,000 citizens for economic empowerment (PT Pertamina, 2023). Astra's Bina Ilmu Foundation provided scholarships for 6,000 students, supporting education (PT Astra International Tbk, 2023). PT PLN's "PLN Peduli" program promotes renewable energy and disaster relief (PT PLN, 2023). However, PT Freeport Indonesia, despite allocating USD 2.2 billion for Papua's infrastructure, faced criticism for environmental damage, raising greenwashing concerns (PT Freeport Indonesia, 2023).

5.2.2. **SMEs**: CSR in SMEs tends to be short-term philanthropy, such as donations for local events or disaster relief, lacking long-term strategies or stakeholder engagement (Hartini, 2022).

5.3 Legal Framework

5.3.1. **GCG**: Law No. 40/2007 on Limited Liability Companies regulates directors' responsibilities (Article 97), board of commissioners' oversight (Article 114), and shareholders' rights through general meetings (Article 66) (Putra, 2022). OJK Regulation No. 21/POJK.04/2015 mandates governance reports for public companies, but oversight is weak for non-public firms (Satory & Mustaqim, 2019).

5.3.2. **CSR**: Law No. 25/2007 on Investment (Article 74) and Government Regulation No. 47/2012 mandate CSR funding, particularly for natural resource companies (Hartini, 2022, p. 346)34. The Minister of State-Owned Enterprises Regulation No. PER-05/MBU/04/2021 encourages strategic CSR in state-owned enterprises, but the lack of specific activity guidelines leads to ceremonial initiatives (Putra, 2022).

5.4. Ethical Aspects

5.4.1. **Large Corporations**: PLN demonstrates high ethics through CSR programs aligned with Pancasila's social justice principle (PT PLN, 2023)36. However, the 2023 technology data breach case indicates ethical responsibility violations, damaging public trust ("E-commerce Data Breach in Indonesia," 2023).

5.4.2. **SMEs**: Low ethical awareness in SMEs hinders the adoption of impact-oriented GCG and CSR practices (Ningrum, 2022).

Table 1. Summary of GCG and CSR Implementation in Indonesia

No.	Company	Case GCG	Case CSR	Law	Ethics
1.	PT Unilever Tbk	Robust, Audited Reports	Environmental Programs	Compliant with Law No. 40/2007	High Integrity
2	PT Garuda Indonesia (2018)	Financial Manipulation	-	Violated Article 68	Integrity Violation
3	PT Pertamina (Persero)	Formal Structure	Sobat Bumi	Compliant with GR No. 47/2012	Ethical, but greenwashing risk

4	PT Astra International Tbk	Audit Committee	Bina Ilmu Foundation	Compliant with Law no. 25/2007	Social Justice
5	PT Freeport Indonesia	Formal but Limited	Partnership Funds	Compliant but Delayed	Greenwashing Risk
6	PT PLN	GCG Structure	PLN Peduli	Compliant with SOE Rules	High Ethics
7	Small and Medium Enterprises (SMEs)	Weak	Ad-hoc Philanthropy	Minimal Overshigt	Low Awareness
8	Data Breach	Weak	-	Violated OJK Rules	Responsibility Violation

Source: Complied by Authors (2025)

The findings were analyzed using corporate governance theory and the Triple Bottom Line framework to understand GCG and CSR implementation and their legal and ethical implications (Hartini, 2022).

a. Good Corporate Governance (GCG)

Robust GCG, as seen in Unilever, enhances investor confidence and corporate value through transparency and accountability (Satory & Mustaqim, 2019). The Garuda case (2018) illustrates that transparency violations damage reputation and finances, underscoring the need for stringent oversight (Widodo & Sari, 2020). In SMEs, the absence of formal GCG structures stems from resource and awareness constraints, necessitating simplified approaches like basic governance training (Ningrum, 2022). GCG must protect minority shareholders, but SMEs' low capacity hinders this principle's application (Satory & Mustaqim, 2019)

b. Corporate Social Responsibility (CSR)

Strategic CSR programs, such as Sobat Bumi and Bina Ilmu, strengthen reputation and stakeholder relationships, supporting the Triple Bottom Line's balance of profit, people, and planet (Hartini, 2022). However, Freeport's criticism highlights greenwashing risks, where companies claim eco-friendly initiatives without tangible impact, aligning with Hartini's (2022) findings (Hartini, 2022). In SMEs, CSR is limited to philanthropy due to the lack of long-term strategies, indicating the need for simpler, affordable CSR models (Ningrum, 2022).

c. Legal Framework

Regulations like Law No. 40/2007 support GCG but are weak for non-public companies (Putra, 2022). CSR is promoted by Law No. 25/2007, but the absence of specific guidelines leads to ceremonial initiatives. Regulatory reforms with stricter sanctions and clear success indicators are needed to enhance effectiveness.

d. Ethical Aspects

Ethics in GCG and CSR, as demonstrated by PLN, reflect Pancasila's social justice value (Ningrum, 2022). However, the technology data breach case reveals moral responsibility violations, supporting Ningrum's (2022) findings on low ethical culture in some sectors. In SMEs, ethics education based on local values like gotong royong can enhance awareness and responsible practices.

CONCLUSION AND SUGGESTIONS

This study concludes that GCG is robust in large corporations like Unilever and Astra but weak in SMEs due to resource constraints. Strategic CSR enhances reputation in large firms, but SMEs are limited to short-term philanthropy, with greenwashing risks persisting. Regulations support GCG and CSR but lack enforcement and specificity, necessitating stricter reforms. Pancasila-based ethics are crucial for integrity, yet challenges like corruption and nepotism remain. The logical consequence is the need for stronger regulations, governance and ethics education for SMEs, and verified CSR reports to ensure tangible impacts. This research contributes to business scholarship by offering a locally grounded perspective and practical solutions to enhance business practices in Indonesia.

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