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Literature Review: Implementation of *Good Corporate Governance* Principles in Improving Company Performance

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Abstract: This study aims to determine how the implementation of the principles of *Good Corporate Governance* (GCG) principles in improving company performance. this research is also proven to create good corporate governance and can improve company performance. the research method used is qualitative method. data collected from books, magazines, and articles published in various scientific journals. the results of this study prove that the implementation of GCG principles significantly affects the improvement of company performance, such as PT Kereta Api Indonesia (Persero), Bank Jatim Dr.Soetomo Branch, Bank Syariah Mandiri Sidoarjo Branch, PT Taspen (Persero) and Mui Yogyakarta Cash Waqf Board.

Keywords: Good Corporate Governance, Stakeholders, Transparency, Accountability, Responsibility, Independence, Fairness.

Introduction

In the face of highly competitive business competition, performance is an important factor that must be considered. Company performance in a certain period can be used as a reference to measure the level of organizational success. Measuring company performance is very important for management to evaluate company performance and plan future goals. Various information is collected so that the work carried out to achieve efficiency and effectiveness in all company business processes (Amelia & Nurleli, 2023). Financial measures can also be used to determine the results of actions taken in the past and these financial measures are complemented by non-financial measures of customer satisfaction, productivity and cost effectiveness of business / internal processes as well as productivity and personal commitment which will determine future financial performance (Wahyuningsih, 2020).

Behavior that violates ethics will affect company performance. Good Corporate Governance also includes companies and human behavior, so if this happens continuously, the company may experience bankruptcy, lack of investor interest in buying shares, and sanctions from the community (Enjeli et al., 2024). Good Corporate Governance (GCG) is a framework designed to provide guidelines and principles of good, transparent, and accountable governance. GCG implementation in the Company has a crucial role in creating a healthy and sustainable business environment. The level of investor confidence is increasing because the implementation of Good Corporate Governance is considered a protector that brings positive results to investors to obtain reasonable investment returns (Anwari Alhamidi, 2022).

The concept of implementing and managing good corporate governance emphasizes the importance of shareholders' rights to obtain correct, accurate and timely information, as well as the company's obligation to provide accurate, timely and transparent information about the company's financial performance (Maisyarah, 2024).

In implementing GCG in Indonesia, all stakeholders participate. The National Committee on Corporate Governance Policy, which in early 2005 was changed to the National Committee on Governance Policy, has issued GCG guidelines. This was followed by the publication of the Indonesian Banking GCG guidelines, guidelines for audit committees, and guidelines for independent commissioners. All of these publications are deemed necessary to provide a reference in implementing GCG (Harinurdin & Safitri, 2023).

The application of the principles of Good Corporate Governance to the Company's performance is believed to be able to provide added value for interested parties (stakeholders) (Parianti et al., 2023). In implementing good and correct GCG principles, it will be the main element in carrying out business aimed at maximizing added value for shareholders and maintaining business continuity (Fizi & Helmina, 2023). There are five main principles of GCG that are generally recognized internationally including transparency, accountability, responsibility, independence, and fairness. The five principles are important because the consistent application of good corporate governance principles has been proven to improve the quality of financial reports and can also be an obstacle to performance engineering activities which result in financial reports not reflecting the fundamental value of the Company (Harinurdin & Safitri, 2023).

According to research that has been conducted (Fizi & Helmina, 2023), it is expected to increase knowledge and understanding of the importance of applying GCG principles in company management. The findings suggest that companies will be more motivated to apply GCG principles in the management of their companies if they see the long-term benefits of applying these principles, and these benefits can be shown visually (Pramanaswari, 2024).

Literature Review

Stakeholder Theory

Stakeholders were first proposed by Freeman in 1984. Stakeholders according to Freeman are groups or individuals who have the ability to influence or be influenced by organizational goals. According to this theory, businesses cannot operate independently of social and environmental issues when doing business. To effectively manage the environment and maintain positive relationships with its stakeholders, businesses must foster and cultivate a sense of concern and commitment to the company. This is due to the fact that stakeholders have the authority to exert pressure on a business when it engages in harmful activities. Stakeholders also have the ability to persuade company management to engage in positive activities (Setiadi, 2022).

According to KBBI, stakeholders are parties who have an interest or stakeholders of a company or organization. Stakeholders are also part of the company that can determine the direction of success of a business. If the relationship between stakeholders is good, then most likely the business will also run well and successfully. Stakeholders have different functions depending on their respective roles, here are some of their roles and functions:

1. Shareholders/owners: as owners of capital, who manage and administer the company, and as shareholders, who will oversee the company instead of making policies.
2. Employee/employees: an individual or group of people who carry out tasks assigned by superiors to achieve company goals.
3. Consumers: individuals or groups who buy, use or consume products sold by the company.
4. Supplier/supplier: an individual or group that provides raw materials or other production needs of the company.
5. Government: an institution that has the authority to provide rules, restrictions and business licenses carried out by companies.
6. Bank: Financial institutions that act as capital providers to companies.
7. Competitors: individuals or groups that have the same or similar products in one industry field.

Definition of Good Corporate Governance (GCG)

Good Corporate Governance is the company's effort to create a conducive relationship pattern between stakeholders in the Company. The conducive relationship between stakeholders is a prerequisite in realizing good company performance, which in turn will support the increase in company value (Khomsiyah, 2009).

This definition emphasizes business success by paying attention to accountability based on laws and regulations and ethical values and paying attention to stakeholders whose long-term goal is to realize and increase shareholder value. The use of GCG proxies that are more in line with the structure, processes and outcomes of corporate governance is also proposed in order to provide a more accurate and transparent evaluation of company management performance to stakeholders (Putra et al., 2024).

Good Corporate Governance is a company management system both administratively and otherwise, to organize and manage the company in order to create a good relationship between directors, commissioners, employees, service users and to achieve mutual prosperity (Pokhrel, 2024). Good Corporate Governance will also provide added value for shareholders in a sustainable manner in the long term, while respecting the interests of other stakeholders (Maisyarah, 2024).

According to the Organization for Economic Cooperation and Development (OECD), corporate governance is the system used to direct and oversee a company's activities, and regulates how managers, boards, and shareholders divide duties and responsibilities. Good Corporate Governance (GCG) refers to a set of principles, values, and practices that govern corporate governance well with the aim of creating a strong relationship between the company and its society (Parianti et al., 2023).

The rules that govern the relationship between shareholders, company management, creditors, government, employees, and other internal and external stakeholders relating to company rights and policies are known as Good Corporate Governance (GCG) (Enjeli et al., 2024).

Good Corporate Governance also has several general frameworks, namely:

a. Stakeholders
b. Governance Structure
c. Risk Management and Internal Control
d. Internal and External Audit (Enjeli et al., 2024)

Principles of *Good Corporate Governance* (GCG)

The company is obliged to apply the principles of GCG correctly and sustainably and of course still adhere to the applicable regulations, and while taking into account the applicable provisions, norms and articles of association of the company to optimize the value of the company in order to have strong competitiveness, so as to maintain its existence and sustainable life to achieve the company's goals and objectives. The company is considered to implement a good management in the company to increase morale for both company organs and stakeholders, clarity on each authority that has been divided in accordance with the company's articles of association, a sense of equality and fairness, transparency and responsibility (Pokhrel, 2024).

According to the KNKG (*National Committee on Governance Policy*, 2011) there are 5 main principles contained in GCG, including the following:

1. Transparency, this principle is very important for objective and healthy business operations because it requires the provision of adequate information to all parties involved, including shareholders, business partners, service users, and others, as well as what is required by law.
2. Accountability, which includes the clarity of functions within the organization and how they are held accountable. In a transparent and fair manner, with proper management, and in line with the interests of the company, shareholders and other stakeholders should be able to evaluate the performance of a company.
3. Responsibility, expects businesses to follow the rules and do their part for society and the environment if they want to remain in business in the long term and be seen as good companies.
4. Independency, ensuring that the company is managed independently, without domination between company organs and free from external intervention.
5. Fairness, ensuring equal treatment and opportunities for all stakeholders, taking into account the needs of shareholders and other stakeholders in accordance with the principles of justice and fairness (Sakti et al., 2023).

Responsibility is the company's attitude in managing its business based on applicable laws and regulations. To improve its performance, the company must understand and comply with regulations and carry out responsibilities to stakeholders so that business continuity can be maintained in the long term. Transparency, independence, accountability, responsibility, and fairness also have a significant effect on the company's financial performance (RezaAdrianto, 2010).

Research Methods

This study uses a qualitative method. Where data is collected and reviewed from books, magazines, and articles published in various scientific journals regarding the application of good corporate governance principles. The data generated from this method are in the form of written or spoken words from people and observed behavior, not numbers or statistics. In textbooks that review the principles of good corporate governance, as well as in scientific journals that publish research on the application of good corporate governance principles and the impact of the application of good corporate governance principles on relevant company performance from trusted sources such as Google Scholar and college libraries and accounting documents issued by educational institutions. It is important for the relevance of the selected sources to be closely related to the title of the application of good corporate governance principles in company performance, by selecting journals that have gone through a peer review process and books that have been written by experts in the field of accounting, and ensuring that the information obtained is the most up-to-date, therefore we prioritize literature published in the last five years. Secondary data collection is carried out by obtaining data from existing sources, such as reading and analyzing books, magazines, and articles.

Result and Discussion

Implementation of Good Corporate Governance Principles at PT Kereta Api Indonesia

By implementing these GCG principles, PT Kereta Api Indonesia can strengthen the Company's reputation, build stakeholder trust, and achieve long-term goals sustainably. Kereta Api Indonesia (Persero) is responsible for implementing good governance based on proper business ethics as the main foundation. Transparency, accountability, responsibility, independence, and fairness are the principles of GCG (Good Corporate Governance), also known as GCG, which underlie the Company's management processes and mechanisms based on laws and regulations and business ethics. The implementation of GCG principles is not only considered as fulfilling obligations, but has become a necessity in carrying out the company's business activities in a safe environment (Enjeli et al., 2024).

Implementation of Good Corporate Governance Principles at Bank Jatim Dr. Soetomo Branch Office

The implementation of the Good Corporate Governance principle at Bank Jatim, Dr. Soetomo Surabaya Branch, which is measured by the principles of effectiveness, efficiency, rule of law, transparency, responsiveness accountability, participation, consensus orientation equity, and strategic vision, where the ten principles generally run well. Bank Jatim, Dr. Soetomo Surabaya Branch has involved all staff, shareholders, the board and board of directors, and customers in the development of banking product and service services at Bank Jatim, Dr. Soetomo Surabaya Branch. However, customer participation is considered to still have minimal contribution, where the form of customer participation is generally still in the educational stage or delivery regarding light matters such as queue comfort is only a matter of queue comfort (Adina et al., 2023).

Implementation of Good Corporate Governance Principles in Limited Liability Companies (PT)

The application of the principle of Good Corporate Governance is the existence of a PT which is expected to be able to support the nation's economy and provide a significant contribution to economic and social development as an effort to realize the RPJM as a government program (Jafar, 2023).

Implementation of Good Corporate Governance Principles at Bank Syariah Mandiri Sidoaro Branch

Bank Syariah Mandiri (BSM) Sidoarjo Branch has implemented Good Corporate Governance (GCG) through the implementation of the principles of openness, accountability, responsibility, independence and fairness. The implementation of GCG at Bank Syariah Mandiri (BSM) Sidoarjo Branch has provided benefits in improving efficient performance, increasing the legitimacy of organizations that are managed transparently, recognition and protection of the rights and obligations of stakeholders, an integrated approach in accordance with the principles, controlling conflicts of interest that arise between capital owners and management, and emphasizing the cost of capital through positive signs or signals to investors (Rahmawati A. & Hermawan, 2023).

Implementation of Good Corporate Governance Principles at PT. Taspen Indonesia (Persero)

The implementation of the Good Corporate Governance (GCG) principle at PT. Taspen Indonesia (Persero) as an improvement effort has succeeded in implementing the principles of openness, accountability with compliance, and responsibility with prudence to the community, company organs, and stakeholders in accordance with the awards received from PT. Taspen Indonesia (Persero). Because as a state-owned company engaged in insurance for civil servants, Taspen always wants to contribute to managing civil servant pension funds for the welfare of civil servants who have devoted themselves to the country (Raubet et al., 2023).

Implementation of Good Corporate Governance Principles at the Mui Yogyakarta Cash Waqf Agency

Regarding the GCG principles carried out by BWU/T MUI DIY so far, it can be concluded that they have not been implemented in their entirety or there are still some shortcomings. The most prominent shortcomings lie in the application of the principles of transparency and accountability. Meanwhile, in the principle of responsibility, the shortcomings experienced only lie in the accountability to applicable laws, because until now BWU/T MUI DIY has not been registered as a cash waqf nazhir with BWI, while the legislation requires that cash waqf nazhir must be registered with BWI. Meanwhile, regarding the principles of independence and fairness applied by BWU/T MUI DIY, it can be said that they have been implemented in their entirety with the fulfillment of the indicators of the two principles (Triwibowo, 2020).

Conclusion

This study examines the importance of implementing Good Corporate Governance (GCG) principles in improving company performance through literature studies from various scientific sources. The approach used is qualitative, with a focus on collecting and analyzing data from books, scientific journals, and trusted articles. In increasingly competitive business conditions, GCG is present as an important instrument to improve business efficiency, transparency, and sustainability. Without implementing GCG principles, companies are at risk of facing a crisis of confidence, declining investor interest, and even bankruptcy.

This study refers to the five main principles of GCG according to KNKG (2011), namely transparency, accountability, responsibility, independence, fairness. These five principles support each other and have been proven to create good corporate governance and improve overall performance. This application examines the implementation of GCG in various organizations such as PT Kereta Api Indonesia (Persero), Bank Jatim Dr. Soetomo Branch, Bank Syariah Mandiri Sidoarjo Branch, PT Taspen (Persero) and the Mui Yogyakarta Cash Waqf Agency.

This study strengthens the understanding that Stakeholder theory is an important foundation in the implementation of GCG. The success of a company no longer depends solely on profit, but also on harmonious relationships between all stakeholders. Therefore, the implementation of GCG needs to be a necessity, not just a formal obligation.

The application of GCG principles not only has an impact on improving company performance, but also builds public trust, minimizes conflicts of interest, and creates a healthy and competitive business climate. GCG also supports the achievement of sustainable added value for all stakeholders, including shareholders, employees, and the community.

This study concludes that the implementation of GCG significantly affects the improvement of company performance. This is supported by qualitative analysis from various reliable literature sources, with an emphasis on the relevance and credibility of the information sources used.

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