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Analysis of Good Corporate Governance in Increasing Investor Trust

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Abstract: This study aims to examine in depth the role of Good Corporate Governance (GCG) in increasing investor confidence in public companies. Investor trust is an important element that can influence investment decisions and long-term loyalty. Using a descriptive qualitative approach through a literature study, this research collected secondary data from various sources such as scientific journals, books, international regulatory reports (OECD), as well as local policies from the Financial Services Authority (OJK). The analysis was conducted by highlighting how the implementation of GCG principles-such as transparency, accountability, responsibility, independence, and fairness-contributes to improving managerial integrity and corporate credibility in the eyes of investors. The results show that companies that consistently implement GCG principles have higher attractiveness in the capital market, and are able to create a more stable and sustainable investment climate.

Keywords: Good Corporate Governance, Investor Trust, Corporate Governance, Transparency, Accountability.

Introduction

In an era of global economic uncertainty, good corporate governance (GCG) is an important instrument in maintaining investor confidence and company continuity. GCG refers to the principles of transparency, accountability, responsibility, independence, and fairness and equality that must be carried out by business entities in all their activities. When these principles are consistently applied, companies not only demonstrate a commitment to good governance, but also strengthen investors' confidence in the stability and credibility of the company.

Recent research proves that companies that implement GCG consistently are more trusted by investors and tend to gain greater loyalty. The study by Meianti, Imsar, and Jannah (2023) "found that transparency of financial information strongly influences investors' positive perceptions of public companies." Similar results were also found by Budiantoro and Arganeta (2022), who stated that "investor confidence increases significantly when companies demonstrate accountability and integrity in reporting and decision making."

In the context of Indonesia, the implementation of GCG principles is becoming increasingly important as conflicts of interest and unbalanced treatment of minority shareholders are still common. Julianto and Sudirgo (2024) "emphasize that good governance is one of the main indicators for foreign investors in assessing the feasibility of investing in issuers on the Indonesia Stock Exchange." Meanwhile, Hidayat (2022) "states that the independence of the board of commissioners plays a major role in improving supervision and accountability, which ultimately shapes market confidence."

Rahayu, Siregar, and Maisyarah (2024) also concluded that "investor confidence is not only formed from the profits earned, but also from the company's compliance with ethical principles, transparency, and responsible leadership." Thus, the discussion of the relationship between GCG implementation and investor confidence is very relevant in responding to the challenges of an increasingly competitive and risky capital market.

Research Method

This research uses a descriptive qualitative approach with a literature study method (library research). This type of research was chosen to explore in depth the theoretical concepts and empirical findings that have been published regarding Good Corporate Governance and investor confidence.

1. The object of research is the relationship between the implementation of GCG principles and the level of investor confidence in public companies, especially in the context of the Indonesian capital market.
2. Research data was collected from secondary sources such as national and international scientific journals, textbooks related to corporate governance, reports of international institutions such as the OECD, as well as domestic regulatory policies such as the OJK and IDX. Literature selection focused on publications in the last 10 years (2014-2024), with priority on references in the last 5 years to ensure relevance.
3. Data collection techniques are carried out by literacy studies, namely reviewing and classifying data based on themes or research indicators, such as GCG principles, investor perceptions, and their impact on investment decisions.
4. The data analysis technique used is content analysis, by interpreting the data qualitatively to identify logical relationships between variables and draw theoretical conclusions. The analysis was conducted to emphasize how each GCG principle affects the dimensions of investor confidence.
5. The research implementation time takes place during March to April 2025, as part of academic activities and scientific writing at Universitas Pembangunan Panca Budi, Medan.

Data Collection Techniques

This research collects data through literature studies by utilizing various relevant secondary sources. The data is drawn from scientific journals, textbooks on corporate governance, GCG standards (such as the OECD GCG Principles and OJK regulations), as well as research reports from trusted institutions. These sources provide a solid theoretical basis and practical overview of the relationship between corporate governance and investor confidence. All data collected is then analyzed qualitatively to understand the key concepts, influence mechanisms, and challenges in implementing GCG principles to build investor confidence.

Theoritical Foundation

Good Corporate Governance (GCG) is a system that regulates and controls the relationship between company management, the board of commissioners, shareholders, and other stakeholders, to achieve company goals in a transparent and responsible manner. GCG implementation is believed to increase company value and public trust, especially investors. Good Corporate Governance (GCG) is a set of rules, practices and processes used to direct and control the company. GCG creates a framework for achieving corporate objectives, which include long-term value creation for shareholders and other stakeholders. OECD (2004) defines GCG as "a structure that establishes the division of rights and responsibilities between the various participants in a company such as the board, management, shareholders and other stakeholders."

GCG principles generally include:

a. Transparency: Disclosure of open, accurate, and timely information so that shareholders and stakeholders can make decisions based on reliable data.
b. Accountability: Clarity of functions, structures, and responsibilities of management and effective supervisory mechanisms.
c. Responsibility: Compliance with applicable laws and regulations and implementation of corporate social responsibility.
d. Independence: Management of the company without pressure or intervention from any party for the objectivity of decision making.
e. Fairness and Equality: Fair treatment to all shareholders and protection of the rights of minority investors.

According to Meianti, Imsar, and Jannah (2023), the implementation of GCG principles such as transparency, accountability, responsibility, independence, and fairness, significantly affects investors' positive perceptions of the company. These principles provide a guarantee of clarity of direction and good governance, so as to minimize the risk of fraud.

Research by Solomon (2010) confirms that effective implementation of GCG will create market confidence and attract capital from investors who have confidence in transparent and responsible corporate management. Furthermore, Budiantoro and Arganeta (2022) state that companies that implement GCG consistently tend to be more trusted by investors because they are considered capable of managing resources efficiently and in accordance with the interests of shareholders.

1) Investor Trust

Investor trust is a crucial element in investment decision making. Investors tend to invest in companies that demonstrate high integrity, information disclosure and good risk management. This trust not only affects the initial investment decision, but also affects investor loyalty in the long run. Investor trust refers to the belief that the company will be able to provide optimal returns with a measurable level of risk. This trust is formed from a combination of the company's reputation, financial performance, and level of transparency and accountability.

According to Hidayat (2022), investor confidence is not only built through financial reports, but also through how management runs the company in accordance with GCG principles. The higher the integrity and credibility of corporate governance, the higher the potential for investors to invest. According to research by La Porta et al. (2000), investor protection systems and the quality of corporate governance have a significant influence on investment interest and capital market growth. They found that countries with good GCG systems tend to have more developed financial markets because investors feel more protected.

Factors that boost investor confidence include:

a. Stable and consistent financial performance,
b. Independently audited financial statements,
c. Corporate leadership with integrity, and
d. Compliance with regulations and ethical standards.
e. Relationship between GCG and Investor Trust

2) Relationship between GCG and Investor Trust

The relationship between GCG and investor trust is reciprocal and mutually reinforcing. The better the implementation of GCG principles, the higher the level of trust given by investors. This is because GCG provides assurance that the company is managed professionally, responsibly, and does not hide risks that harm investors. GCG and investor confidence have a close and mutually reinforcing relationship. When companies consistently apply GCG principles, the risk of asymmetric information and conflicts of interest can be minimized. This provides a positive signal to investors that the company is managed professionally and responsibly.

Julianto and Sudirgo (2024) found that GCG has a significant effect on firm value, which in turn also affects investor confidence. Meanwhile, Syaiah, Tamburaka, and Lestari (2021) concluded that a strong GCG structure has an impact on increasing company profitability, which is an important indicator for investors in assessing the company's potential. Thus, the implementation of GCG not only provides internal benefits for the company, but also creates a positive perception in the eyes of investors and the capital market at large. Thus, the implementation of GCG not only provides internal benefits for the company, but also creates a positive perception in the eyes of investors and the capital market at large.

Result and Discussion

Investor Trust in Good Corporate Governance Principles

Good Corporate Governance (GCG) is not just a management monitoring tool, but a key instrument in building investor confidence in the company. In a dynamic and risky capital market, investment decisions are strongly influenced by investors' confidence that the company is managed in a fair, transparent and responsible manner.

1. Transparency

   Transparency is a fundamental principle in GCG that encourages information disclosure for all interested parties. Investors rely heavily on the company's openness in delivering financial reports, business strategies, risks, and future projections. Information that is not conveyed honestly can lead to distrust and even negative speculation that is detrimental to the company.

   According to research by Meianti, Imsar, and Jannah (2023), high transparency in financial reporting and corporate communication significantly affects investors' perceptions of the company's credibility. They stated that, "transparency is a major tool in reducing information uncertainty, which ultimately increases investor confidence in company management". When companies convey information openly and do not cover up the risks faced, investors feel more comfortable investing because they can make decisions based on complete and accurate data.

2. Accountability

   Accountability is a guarantee that every decision taken by the company's organs can be accounted for professionally and morally. Investors expect that company management not only has authority, but is also able to demonstrate performance in line with shareholder goals. Syaiah, Tamburaka, and Lestari (2021) in their research state that, "a high level of accountability can prevent potential abuse of power by management and strengthen the company's internal control structure". Thus, investors put their trust in companies that have a clear accountability system, including a managerial performance evaluation mechanism and a fair remuneration structure.

3. Responsibility

   Responsibility in GCG relates to regulatory compliance and corporate social responsibility. In this context, investors not only look at the company in terms of financial performance, but also from the extent to which the company acts in accordance with the law and business ethics.

   As revealed by Julianto and Sudirgo (2024), "companies that comply with regulations and pay attention to social aspects tend to be more trusted by investors, because they are considered to have a long-term commitment to business sustainability". This compliance also creates stability in the business environment, which is very important in attracting long-term investment.

4. Independence

   The principle of independence ensures that the company's strategic decisions are made without any pressure or adverse influence from internal or external parties. The existence of an independent board of commissioners and audit committee is an important indicator for investors that company decisions are based on objective considerations.

In Hidayat's research (2022), it was found that “the level of independence in the corporate governance structure has a significant influence on the level of investor confidence, because they see it as a form of protection against policy deviations”. When the supervisory organ is free from conflicts of interest, investors feel safe because internal control is running properly.

5. Fairness and Equality

The principle of fairness refers to the fair treatment of all stakeholders, including minority shareholders. Investors will tend to avoid companies that show favoritism or conflicts of interest in decision making. Budiantoro and Arganeta (2022) state that, “companies that apply the principle of equality and provide equal access to information to all investors are able to create a healthy and competitive investment climate”. This shows that the principle of fairness plays a major role in shaping investors' perceptions that the company does not only prioritize certain groups, but maintains a balance of interests of all parties.

GCG Implementation as a Strategy to Improve Company Credibility

The implementation of Good Corporate Governance (GCG) principles has proven to be an important strategy in improving company credibility in the eyes of investors. In a competitive capital market, the company's reputation is one of the determining factors in making investment decisions. Companies that consistently implement GCG are seen as more credible and trustworthy because they demonstrate a commitment to transparency, accountability and integrity.

According to research by Meianti, Imsar, and Jannah (2023), “companies that have a good reputation in implementing GCG tend to be more trusted by investors because they are considered capable of managing risks and maintaining company value in a sustainable manner”. This credibility also encourages companies to get wider access to capital, because investors feel safer against the potential risk of moral hazard that often occurs in companies that do not implement GCG consistently.

GCG and Investment Decisions: Psychological and Rational Perspectives

Investors not only consider quantitative data in financial statements, but also qualitative aspects such as the company's commitment to GCG principles. From a psychological perspective, GCG is a source of trust that calms investors in making decisions, especially in volatile market situations.

As stated by Hidayat (2022) in his research, "the existence of information disclosure, independence in decision making, and effective managerial supervision makes investors feel protected from the risk of unhealthy management, thus affecting their confidence in the long run". This means that GCG not only functions as an internal control tool, but also as a mechanism for creating an emotional sense of security for investors.

GCG Consistency and Investor Loyalty

GCG implementation is not enough to be done only when there is external pressure or simply reporting, but must be a long-term commitment. Consistency in the implementation of GCG principles is an important indicator for investors in assessing the integrity of the company. When principles such as transparency, accountability, and independence are implemented continuously, investor confidence will increase.

Syaiah, Tamburaka, and Lestari (2021) state that "the level of consistency in the implementation of GCG is directly proportional to investor loyalty, where investors will be more likely to hold their investments in the long term if they assess that the company has high governance integrity". This shows that investor loyalty is not only shaped by returns, but also by belief in corporate governance.

Business Ethics and GCG-Oriented Leadership

The implementation of GCG is closely related to leadership with integrity and ethics. Company leaders have a great responsibility in shaping an organizational culture that adheres to the principles of governance. GCG-oriented leadership will avoid corrupt practices, report manipulation, or abuse of authority, all of which have the potential to undermine investor confidence.

Budiantoro and Arganeta (2022) emphasize that "investors not only assess the company's financial performance, but also the moral character of its leaders. When leaders demonstrate high business ethics, this has a direct impact on the company's positive image in the eyes of investors". This kind of leadership creates a stable and long-term value-oriented business environment.

GCG Implementation and Competitiveness of Issuers on the Stock Exchange

The competitiveness of companies on the stock exchange is largely determined by the quality of GCG implementation. Issuers that implement good governance tend to be more attractive to investors because they have lower management risks. This can be seen from how companies prepare annual reports and sustainability reports in accordance with the principles of transparency and accountability.

In the context of the Indonesian capital market, Julianto and Sudirgo (2024) state that "the implementation of comprehensive GCG has a positive impact on foreign investor interest, because it provides clarity on the management structure and internal control of the company." Therefore, companies that implement GCG in reality and not just a formality have a greater chance of attracting sustainable investment.

Conclusion

Based on the results of the study and discussion that has been carried out, it can be concluded that the principles of Good Corporate Governance (GCG) - including transparency, accountability, responsibility, independence, and fairness and equality - have an important role in shaping and increasing investor confidence in the company. The implementation of these principles not only improves the integrity and professionalism of company management, but also serves as a positive signal to investors that the company has a transparent and responsible management system.

Transparency helps reduce information uncertainty that can lead to negative speculation. Accountability provides assurance that the management of the company is carried out professionally and responsibly. The principle of responsibility shows compliance with the law and corporate social commitments, while independence ensures objectivity in decision making. Meanwhile, fairness and equality strengthen investors' confidence that all shareholders, including minority investors, receive fair treatment.

This research also confirms that investors not only pay attention to financial performance, but also assess moral integrity, ethical leadership, and the company's reputation in implementing GCG. The more consistently the company applies GCG principles, the greater the opportunity to gain investor loyalty in the long term. Thus, GCG is not only an internal control tool, but also a strategic instrument in building trust and increasing the competitiveness of companies in the capital market.

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