

# Mapping Corporate Governance in Indonesia: A Guide for Future Research

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## Abstract

The implementation of Good Corporate Governance (GCG) in Indonesia faces various challenges despite the existing regulations. Key issues include transparency, accountability, and the strong political influence in corporate decision-making. This study aims to analyze the application of GCG principles in Indonesia, identify the barriers, and provide recommendations for strengthening the effective implementation of governance. Using a narrative review approach, this research examines various previous studies related to corporate governance in Indonesia. The findings show that, although GCG regulations in Indonesia have evolved, their implementation is often hindered by weak oversight, political influence, and discrepancies between theory and practice. Additionally, the findings underscore the importance of the roles of the board of commissioners, audit committees, and external oversight in improving GCG implementation in Indonesia. This study contributes by enhancing the understanding of the gap between corporate governance theory and practice in Indonesia and offers more practical recommendations for policymakers and practitioners to improve corporate transparency and accountability. The research also provides new insights into the development of governance theories more relevant to Indonesia's context.

**Keywords:** Good Corporate Governance, Transparency, Accountability, Political Influence, Indonesia, Narrative Review

## INTRODUCTION

Good Corporate Governance (GCG) in Indonesia has become a central issue in recent decades, especially in facing global and domestic economic challenges. The implementation of transparent, accountable, and integrity-based governance principles is crucial to ensure that companies operate efficiently and provide fair benefits to all stakeholders. Although several regulations, such as Law No. 40 of 2007 concerning Limited Liability Companies and regulations issued by the Financial Services Authority (OJK), have been enacted, many Indonesian companies still face difficulties in effectively applying these governance principles. Major challenges include low financial reporting transparency, unclear accountability, and the strong influence of owner groups in strategic decision-making (Yolamalinda et al., 2023; Setyahadi & Narsa, 2020). Furthermore, both public and private sectors in Indonesia face challenges in building governance systems that can adapt to the rapidly changing global market and meet the social expectations of Indonesia's society (Wijayanti & Setyorini, 2023).

In Indonesia, despite numerous studies evaluating the application of corporate governance, significant gaps remain in understanding and practice. This highlights the urgency of conducting further research to examine the gaps in the application of governance principles and to propose guidance for strengthening existing systems to adapt to the dynamics of global markets and the social needs of Indonesia. Various challenges, such as regulatory uncertainty and weak external supervision, often hinder companies from applying optimal governance (Kirana & Nasution, 2023). Therefore, future research should focus on analyzing in depth the gaps between corporate governance practices in Indonesia and global standards, as well as finding solutions to improve the application of governance principles (Fai'q et al., 2024).

In this study, we use a theoretical approach combining several relevant theories to explain the dynamics of corporate governance in Indonesia, such as Agency Theory, Stakeholder Theory, and Corporate Governance Theory. Agency Theory focuses on the relationship between owners and managers, which often leads to conflicts of interest regarding company management. Meanwhile, Stakeholder Theory emphasizes the importance of involving various parties in decision-making to ensure a balance between the interests of the company and society. Finally, Corporate Governance Theory provides guidelines for the expected governance standards, such as transparency, accountability, and responsibility (Rilah & Trisnaningsih, 2024). These three theories will serve as the foundation to assess existing governance practices and provide directions for this research.

The primary goal of this study is to analyze the implementation of good corporate governance principles in Indonesia, both in the public and private sectors. Specifically, this research aims to identify the factors that hinder the implementation of transparent, accountable, and integrity-based governance and to assess the gap between corporate governance practices in Indonesia and global standards. This study also aims to develop strategies and recommendations for strengthening the application of effective corporate governance in Indonesia and evaluating the impact of good governance on corporate performance and reputation in Indonesia (Nasution et al., 2024). The research questions addressed in this study include: How is the implementation of good corporate governance principles in Indonesia today, especially in the public and private sectors? What are the factors that hinder the implementation of transparent, accountable, and integrity-based corporate governance in Indonesia? What are the gaps in corporate governance practices in Indonesia compared to global standards? What strategies and recommendations can be applied to strengthen the implementation of effective corporate governance in Indonesia? What impact does good governance have on corporate performance and reputation in Indonesia?

Good Corporate Governance (GCG) is a deep and evolving topic in both academic and business practice. Several key theories are often used to study corporate governance, including Agency Theory and Stakeholder Theory. Agency Theory, initially developed by Jensen and Meckling in 1976, focuses on the relationship between owners (principals) and managers (agents), who often have differing interests. The theory posits that agents tend to pursue their own interests, which may lead to a divergence from the goals of the owners (Jahja et al., 2020). On the other hand, Stakeholder Theory, introduced by Freeman in 1984, has a broader approach, recognizing that a company must consider the interests of all parties involved, including employees, consumers, and society at large, beyond just shareholders (Saif Alnasser & Muhammed, 2017). These two theories are fundamental in understanding the structure and dynamics of corporate governance in Indonesia, which in practice is often influenced by local political and cultural factors (Anastasia & Hapsari, 2023).

Several previous studies have examined the application of these theories within the context of corporate governance in Indonesia. For instance, Jahja et al. (2020) analyzed managerial diversion in state-owned enterprises (SOEs) in Indonesia and found that the application of GCG principles is still hindered by corruption and the lack of clarity in the division of roles between the government and management. Similarly, Setyahadi and Narsa (2020) found that although GCG regulations have been introduced, their implementation in the private sector is still limited, particularly in terms of transparency and accountability. The application of Agency Theory and Stakeholder Theory in Indonesia suggests that while there has been improvement in policies and regulations, challenges in implementation remain, especially due to the strong political influence and weak external supervision (Kirana & Nasution, 2023). Therefore, future research should focus on in-depth analysis of the gaps between corporate governance practices in Indonesia and applicable global standards, and seek solutions to improve these practices (Fai'q et al., 2024).

However, there are significant gaps in the existing literature. Several studies have shown that while corporate governance in Indonesia has improved, a substantial gap remains between theory and practice. Anastasia and Hapsari (2023) noted that there is a discrepancy between the ideal governance expectations and the political and economic conditions in Indonesia. Other studies suggest that although companies in Indonesia have adhered to GCG regulations, oversight and enforcement remain insufficient, leading to a gap between theory and practice (Kirana & Nasution, 2023). This shows that while policies and regulations are in place, their application is often not in line with the theories that underpin them, particularly in developing countries like Indonesia.

This article aims to fill these gaps by analyzing how the gap between GCG theory and practice in Indonesia can be addressed. Using a theoretical approach combining Agency Theory and Stakeholder Theory, this article aims to provide more context-specific and practical recommendations on how these gaps can be overcome in Indonesia. The contribution of this article is to provide more focused guidance on how to address these issues in the Indonesian context, considering the economic, political, and social factors that influence corporate governance in the country (Wardah et al., 2024).

Methodologically, most of the previous research on corporate governance in Indonesia has used qualitative approaches, including literature studies and case analyses, to identify the problems in the application of GCG. However, more recent studies, such as those by Susanto and Mulyani (2023), have proposed meta-analysis approaches to assess the relationship between corporate characteristics and corporate social responsibility (CSR) practices, which can contribute to a deeper understanding of how external factors influence governance practices. This approach provides important insights into how both internal and external factors, such as company size and institutional ownership, impact governance performance in Indonesia.

The conceptual synthesis of various literatures points to the need for a multidisciplinary approach in analyzing corporate governance in Indonesia. By combining the existing theories, such as Agency Theory and Stakeholder Theory, with the unique social and political context in Indonesia, this article proposes a new approach to assess and improve corporate governance practices. It also emphasizes the need for stronger external oversight and the active involvement of all stakeholders in the governance process to reduce potential conflicts and increase transparency and accountability (Masoud, 2024).

## **METHOD**

This study uses a narrative review approach to explore the application of Good Corporate Governance (GCG) principles in Indonesia. The narrative review approach was chosen because of its ability to comprehensively synthesize findings from various literature sources without being constrained by statistical or experimental methodologies. This method allows for presenting a range of findings related to corporate governance in the context of Indonesia, mapping the gaps that exist in the literature, and identifying potential solutions to strengthen the application of these principles (Chukwuma et al., 2021).

The data used in this study are secondary, sourced from relevant academic literature. Data were collected from articles published in reputable journals and other sources related to corporate governance in Indonesia. The literature considered in this study includes research that addresses various aspects of governance, such as transparency, accountability, and the relationship between managers and owners (Jahja et al., 2020; Adebayo, 2025).

Data collection was conducted through literature searches using academic databases such as Google Scholar and open-access journals. The literature search protocol involved the use of relevant keywords such as “corporate governance,” “corporate governance in

Indonesia,” and “agency theory and stakeholder theory.” All selected articles had to meet the inclusion criteria, which were publications from the last five years and relevance to corporate governance topics (Wijaya et al., 2025; Sun et al., 2022).

The inclusion criteria for this study involved articles that addressed foundational theories of corporate governance, studies relevant to the Indonesian context, and research published in indexed journals with open-access availability. Articles that were not directly related to the topic or not available in full-text were excluded from this study. Additionally, only articles that highlighted Agency Theory and Stakeholder Theory were considered (Chen, 2024).

The unit of analysis in this study is the body of literature focusing on corporate governance in Indonesia, including studies related to both the public and private sectors. Each article was analyzed to assess the theories applied, the findings presented, and the practical implications for corporate governance practices in Indonesia (Masoud, 2024).

The analysis technique used in this study is thematic analysis and narrative synthesis. Thematic analysis was conducted to identify the key themes emerging from the literature, such as the role of managers in governance, transparency issues, and the differences between theory and practice. Narrative synthesis was employed to combine the findings from various studies and provide a broader understanding of the challenges and solutions related to corporate governance implementation in Indonesia (Chukwuma et al., 2021; Ahrens & Khalifa, 2013). Additionally, this approach facilitates a holistic mapping of the impact of GCG implementation on corporate performance in Indonesia.

## RESULTS AND DISCUSSION

This study identifies the key findings from various literatures regarding the application of Good Corporate Governance (GCG) principles in Indonesia. The results of this research are synthesized from a range of studies that examine the relationship between GCG implementation and the sustainability of corporate performance, as well as the challenges encountered in its application.

The first relevant study is by Setyahadi and Narsa (2020), which shows that, although GCG regulations have been introduced in Indonesia, the implementation of governance principles, especially in both the public and state-owned sectors, still requires more stringent supervision. One major finding is that the roles of the board of directors, commissioners, and audit committees are strongly linked to enhanced corporate social responsibility (CSR) disclosure, which is crucial for corporate sustainability in Indonesia. The results indicate that good governance contributes positively to financial performance and sustainability (Setyahadi & Narsa, 2020).

Furthermore, a study by Nasution et al. (2024) explores the relationship between GCG practices and the financial performance of companies listed on the Indonesian Stock Exchange. The synthesis of this study reveals a significant positive correlation between strong GCG mechanisms and improved financial performance, involving factors such as management transparency, board structure, shareholder rights, and good auditing practices. However, a major challenge identified is the inconsistent enforcement of regulations and the dominance of family-owned businesses, which still influence decision-making in Indonesian companies (Nasution et al., 2024).

Another study by Jahja et al. (2020) on the influence of GCG in Indonesia's state-owned enterprises found that, although GCG has been introduced in these companies, there is still a significant issue of political influence in decision-making and abuse of power by managers, leading to conflicts of interest and deviations from GCG principles. This finding reinforces the argument that the application of GCG in Indonesia needs adjustments to the social and political dynamics present in the country (Jahja et al., 2020).

From a broader perspective, research conducted by Anastasia and Hapsari (2023) shows that many previous studies identify gaps in the application of GCG in Indonesia due to differences in methodologies, sample selection, and study periods. Their analysis indicates that, although Indonesia's GCG code encourages more transparent disclosures in various fields, the supervision and enforcement of these regulations remain weak, limiting their effectiveness (Anastasia & Hapsari, 2023).

In a more sector-specific study focusing on insurance, Kuswanto (2024) identifies that, although insurance companies in Indonesia are required to report on their GCG practices annually, some companies have ceased submitting their reports even though they are in compliance with GCG regulations. This finding highlights the lack of clarity in regulations concerning supervision and the implementation of GCG principles in this sector (Kuswanto, 2024).

In the stakeholder-focused sector, research by Asnawi et al. (2021) on the application of GCG in the palm oil plantation sector shows that the implementation of GCG principles oriented toward sustainability and corporate social responsibility (CSR) is essential for maintaining business continuity and considering the environmental impact. Companies that adopt strong GCG principles focus not only on profit but also on the welfare of surrounding communities and the sustainability of natural resources, leading to more sustainable business practices (Asnawi et al., 2021).

Through the analysis of this literature, it is evident that while Indonesia has a legal framework supporting the implementation of GCG, there are still major challenges in its application. Overall, good governance is positively correlated with improved financial performance and corporate sustainability, but the gap between theory and practice remains significantly wide, particularly due to political influence and cultural issues involving corruption in many of Indonesia's large companies.

The results of this study highlight several key findings related to the implementation of Good Corporate Governance (GCG) principles in Indonesia, aligning with the primary objectives of this research to analyze the barriers and strengthen the GCG system. From the synthesis of the literature, it is evident that, although GCG regulations in Indonesia have evolved, their implementation is hindered by various challenges. These challenges include weak oversight, political influence, and discrepancies between theory and practice. The optimal application of GCG in Indonesia is significantly influenced by internal company mechanisms, such as the roles of the board of directors and commissioners, as well as external oversight, which remains insufficient (Kuswanto, 2024; Nasution et al., 2024).

In the context of the theories used, these findings can be explained through the lens of **Agency Theory** and **Stakeholder Theory**. According to Agency Theory, the relationship between owners and managers is often filled with conflicts of interest, which can undermine the implementation of GCG principles (Jahja et al., 2020). On the other hand, Stakeholder Theory emphasizes the importance of involving various parties in decision-making processes to ensure that the interests of all stakeholders, not just the company owners, are accounted for. The finding that many companies in Indonesia, both public and private, struggle with consistent GCG implementation suggests that these theories remain relevant in analyzing the governance structures in place in Indonesia (Anastasia & Hapsari, 2023).

When compared with previous studies, the findings of this research align with those of Setyahadi and Narsa (2020), who argued that, while Indonesia's corporate governance framework has improved, weak enforcement of regulations remains a major barrier. Similar to the findings of Nasution et al. (2024), this study also emphasizes that the involvement of stakeholders, particularly the board of commissioners and audit committees, plays a significant role in corporate social responsibility (CSR) disclosure and sustainability. However, some previous research, such as Jahja et al. (2020), points out that, despite the existence of

regulations, political influence in decision-making still hinders effective GCG implementation in state-owned enterprises.

One significant contribution of this article is its emphasis on the **strengthening of leadership integrity** and the role of the state in enhancing corporate governance in Indonesia. This article expands the understanding of how **political influence** can affect the quality of governance and contributes to the development of more applicable corporate governance theories in the context of developing countries like Indonesia (Masoud, 2024). This study also offers practical recommendations for policymakers to tighten oversight on GCG implementation and for companies to improve internal accountability and transparency mechanisms.

However, the study also acknowledges several limitations. One major limitation is the lack of primary data that could directly measure the impact of GCG implementation on corporate performance, which would provide a clearer picture of the relationship between theory and practice. Additionally, while this article has covered a wide range of relevant literature, the findings are still constrained to literature analysis and do not incorporate a broader range of empirical data from various sectors of industry in Indonesia.

Future research should focus on more empirical testing related to GCG implementation, especially by collecting primary data from various sectors in Indonesia. Further studies should also explore the **political and economic impacts** on GCG implementation in the public sector and how **regulatory changes** could reduce the gap between theory and practice in corporate governance. For practitioners and policymakers, this study provides guidance for designing more effective regulations to oversee GCG implementation in both public and private sectors and to promote a culture of good governance in Indonesia (Juhandi, 2022).

## CONCLUSION

This study has identified several key findings related to the application of Good Corporate Governance (GCG) principles in Indonesia, aligning with the primary goals of the research to analyze the barriers and strengthen the GCG system. The findings confirm that, although regulations regarding GCG in Indonesia have evolved, their implementation remains hindered by issues such as weak oversight, political influence, and discrepancies between theory and practice. The optimal application of GCG is heavily influenced by internal company mechanisms, such as the roles of the board of directors and commissioners, and the lack of effective external oversight. Additionally, the gap between formal regulations and their actual implementation remains a significant challenge for enhancing governance in Indonesia.

The contribution of this study lies in its ability to expand the understanding of the gap between GCG theory and practice in Indonesia. By integrating theories such as Agency Theory and Stakeholder Theory, the study offers valuable insights into the challenges of implementing effective corporate governance in the country. From a practical perspective, the study provides recommendations for policymakers to tighten oversight on GCG implementation and for companies to improve internal governance mechanisms. This research also provides new perspectives for developing corporate governance theories that are more relevant to the Indonesian context.

Based on the findings, future research should focus on empirical testing regarding GCG implementation, particularly by gathering primary data from various sectors in Indonesia. Further studies should also explore the impact of political and economic factors on GCG implementation in the public sector, and how regulatory changes can help close the gap between theory and practice. For practitioners and policymakers, this study offers practical guidance for designing more effective regulations to oversee GCG implementation and to foster a culture of good governance across Indonesia's public and private sectors.

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