

## Application of Good Corporate Governance (GCG) Principles in Cirebon Publications According to Islamic Economics

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### ABSTRACT

Recent developments show that it is not enough for management to ensure that the leadership management process is effective. In order for management to run well, a new tool is needed, namely Good Corporate Governance (GCG). This concept emphasizes two things, first, the importance of shareholders' rights to obtain accurate and timely information, and second, the company's obligation to publish all information regarding company performance accurately, timely and transparently. property and interested parties. The study aims to evaluate the extent to which the principles of good corporate governance (GCG) have been implemented in the Indonesian banking sector, both in conventional and Islamic banks. In this study, the type of research used is a type of qualitative descriptive research. The results of various national and international independent research institutions show that Indonesian business people do not understand the importance and strategic implementation of GCG principles. In addition, organizational culture also influences the implementation of GCG in Indonesia.

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### 1. Introduction

Problems related to good governance began to develop in Indonesia in 1998 during the economic crisis. Some argue that recovery from the crisis takes a long time because Indonesia still has weak good governance practices, including in the banking sector. Many companies use policies that prioritize the internal interests of the company by ignoring the interests of investors.

The development of the company's management perspective returns to agency theory, where the difference between ownership and management can cause agency problems and the way to overcome these agency problems is to apply good management (Wulandari, 2006); (Wardoyo, Rahmadani, & Hanggoro, 2021). Syakroza defines GCG as a good organizational management mechanism in managing organizational resources efficiently, effectively, economically or

productively in accordance with the principles of transparency, accountability, responsibility, independence and equality to achieve organizational goals (Syakhroza, 2005).

GCG is a system that includes inputs, processes, and outputs, as well as a set of rules that regulate relationships between stakeholders, specifically narrower relationships between shareholders, officers, and directors to achieve company goals. The purpose of GCG is to regulate the relationship prevent deviations in the implementation of corporate strategy and ensure that any mistakes that occur can be corrected immediately. Therefore, according to Tricker quoted by Zarkasyi, the emergence of GCG is due to the relational gap in the company and what should happen (Zarkasyi, 2008).

The Indonesian banking crisis that began in late 1997 was not only the result of the economic crisis but also the underlying failure of good governance and ethical behavior. Therefore, efforts to restore confidence in the Indonesian banking industry through restructuring and recapitalization can only have a sustainable and fundamental impact if accompanied by three other important steps, namely fulfillment of the principle of caution, implementation of Good Governance, and effective supervision by bank regulators.

Poor management makes the company vulnerable to various problems and cannot last long. Bad governance, of course, is closely related to poor management. Poor management must have an impact on the company's financial management. Indonesia's economic crisis a few years ago proved this. Many companies are losing money and cannot survive because of poor company management. Several evaluation results of Indonesia's corporate governance system show unsatisfactory results and improvements in corporate governance have not been carried out thoroughly (Naeruz, Afiffudin, Ruslan, & Syafii, 2022) (Susono, 2019).

In other words, Islamic commercial banks are becoming more effective in conducting corporate governance. The implementation of effective corporate governance creates good management practices that can improve company performance, reduce risk, and allow the board to make decisions that are beneficial to it, and in general good governance can strengthen investor confidence in investment, which has the impact of influencing performance (Andira, 2012); (Sari, Al Musadieq, & Sulisty, 2018); (Ramadani, Romano, & Fauzi, 2020).

Islamic Economics considers good GCG essential for all businesses, but even more so for Islamic financial institutions. GCG becomes very important here because there is agreement that Islamic financial institutions should be part of the paradigmatic ideals of Islamic financial system development and financial system that emphasize moral content in all agreements and transactions. This is a lesson, especially in the banking world, that they must be more careful in running their business. Therefore, the implementation of good corporate governance must be improved, especially in the banking world, both in conventional banks and in Islamic banks in particular (Ardhanareswari, 2017)

In this case, the importance of implementing good corporate governance (GCG) in Islamic banking not only provides a sense of security to customers and investors. investing but helping the company develop, it is not easy to control all employees or parties working in Islamic banks, because not all institutions called "Sharia" apply the same and predetermined. Therefore, the author concludes that the objectives of GCG implementation can be managed and benefited by improving the performance of Islamic banking institutions, especially employees who initially operated without GCG based on Sharia principles, can be applied and organizational goals to be achieved.

This research can provide a better understanding of the factors influencing post-crisis economic recovery, particularly in the context of corporate governance. The research findings can provide valuable insights for policymakers to design effective measures in strengthening the corporate governance system, and the research aims to evaluate the extent to which the principles of good corporate governance (GCG) have been implemented in the Indonesian banking sector, both in conventional and Islamic banks. Focus will be given to assessing transparency, accountability, independence, and equity in managing company resources. This research can provide a better understanding of the factors influencing post-crisis economic recovery, particularly in the context of corporate governance. Research findings can provide valuable insights for policymakers to design effective measures to strengthen corporate governance systems.

## **2. Materials and Methods**

In this study, the type of research used is a type of qualitative descriptive research. "Qualitative research is research that intends to understand phenomena about what is experienced by research subjects such as behavior, perception, motivation, action, and others; holistically, and by way of description in the form of words and language, in a specific, natural context and by utilizing various natural methods" (Moleong, 2012).

To collect data, the techniques used are in the form of interview and observation methods. Where according to (Jogiyanto, 2008), interviews are two-way communication to get data from respondents. Based on how to conduct an interview, the process of conducting an interview will be divided into three types. These are personal interviews, intercept interviews, and telephone interviews. In this study, the interview used was personal, because there were few respondents so they needed more in-depth communication directly.

## **3. Result and Discussion**

### **Defense Good Corporate Governance (GCG)**

Good Corporate Governance (GCG) is one of the pillars of the market economy. This is closely related to trust in both the executing company and the country's business environment. The introduction of GCG encourages the creation of healthy competition and a conducive business environment (Zanaria, 2022); (Rojali, 2023); (Sinaga, 2023). Therefore, the implementation of GCG by Indonesian companies is very important to support sustainable economic growth and stability. The implementation of GCG is also expected to support the government's efforts in maintaining good governance in Indonesia in general. Currently, the government is trying to introduce good governance into its bureaucracy to create a clean and authoritative government. The definition of management system according to Decree No. Kep117 / M-MBU / 2002 of the Minister of SOEs dated July 31, 2002, concerning the Implementation of GCG Practices in SOEs, is processes and structures in SOE committees to improve business success and corporate responsibility to create long-term shareholder value, taking into account the interests of other stakeholders, based on law and ethical values. Good corporate governance (GCG) is an important part of the banking industry due to the increasing risks and challenges facing the banking industry. The implementation of GCG consistently strengthens the company's competitive position, maximizes company value, and manages resources and risks more effectively and efficiently, which ultimately strengthens the trust of shareholders and stakeholders so that BSM can operate and grow sustainably in the long term. BSM is fully committed

to the implementation of GCG at all levels and levels of the organization and refers to various regulations and requirements related to the implementation of GCG (Mulato, 2018); (Santosa, Mawardi, Muid, RMD, & Ardani, 2020).

According to the World Bank, it is a set of laws, regulations, and rules that must be followed and that can improve the performance of a company's resources to operate efficiently and create sustainable long-term economic value for shareholders and surrounding communities. At the same time, it was formulated in a GCG workshop at the office of the PM of SOEs in December 1999 that good corporate governance refers to effective decision-making based on resources, ethics, values, systems, business processes, policies, and policies of SOEs. company. Organizational structures promote and support the development of the company, more effective and efficient management of resources and risks, and corporate responsibility to shareholders and other stakeholders.

According to Hessel (2001), three things are needed to create good and clean management, namely:

1. Eradication of KKN (corruption, collusion, and nepotism).
2. Budget discipline and elimination of off-budget funds
3. Added monitoring functionality. Corporate governance refers to the systems and methods by which a company is managed, directed, or monitored.

GCG also includes legal and industry-specific provisions that affect the direction and objectives of the company. Enterprise management is also considered the process of monitoring the performance of the company through the implementation of appropriate preventive measures related to concepts such as the following: Transparency, integration, and accountability. Corporate governance mechanisms and controls are designed to reduce inefficiencies due to moral hazard and adverse selection. In addition, it is related to the adherence of Islamic banks to Sharia principles as stated in the Qur'an, Hadith, and Ijma of scholars. Along with its development, the topic of GCG has received special attention in economic studies and political debates in search of optimal governance structures. The response to GCG is strengthened by multilateral financial institutions such as according to the World Bank and ADB, the cause of the financial crisis experienced in 1997 in various countries, especially in Asia, was none other than the practice of implementing poor corporate governance. From the various definitions found, it can be concluded that corporate governance is:

1. A structure that regulates a harmonious relationship model for the roles of commissioners, management, GMS, and other stakeholders.
2. The system of checks and balances means a balance of power in the management of the company, which can limit the emergence of two possibilities, from mismanagement and misuse of company property. A transparent process for measuring a company's goals, success, and performance.

### **Good Corporate Governance (GCG) in Indonesian Publications**

The implementation of corporate governance is very important as a process to ensure the sustainability of the company's operations in the long term by prioritizing the interests of shareholders and stakeholders (Ayuso, Rodríguez, García-Castro, & Ariño, 2014). Given the importance of corporate governance, Cirebon Publications considers it necessary to implement good corporate governance (GCG) in Cirebon Publications.

In line with the commitment of Cirebon Publications to implement GCG consistently and sustainably, Cirebon Publications already has several supporting tools as guidelines for GCG

implementation, including Philosophy, Vision, Mission, Corporate Culture, Corporate Regulations, Ethics and Professional Responsibility and Policy. Like some standard operating systems that have been around for a long time. In addition to completing GCG implementation support tools, Cirebon publicity continues to develop existing supporting tools to meet the development of Cirebon's publication business and national and global market competition conditions.

The introduction of GCG publications in Cirebon is also actively supported by Indonesian Publication officials and the Board of Directors. Clarity in the implementation of the duties of each board and management, in defining the strategic plan of Cirebon Publication by the company's work plan and budget (RKAP), in the implementation of compliance and risk management functions as well as in the formation of committees and units of internal supervision and control Cirebon Publication embodies the commitment of officials and Directors to the implementation of GCG. To ensure the implementation of GCG and not only to meet applicable regulatory requirements, Indonesian publications have appointed several independent people to the Supervisory Board.

### **Prinsip Good Corporate Governance (GCG)**

In general, there are five basic principles of good corporate governance, namely:

1. Transparency (information disclosure), namely openness in carrying out the decision-making process and openness in presenting material and relevant information about the company.
2. Accountability, namely clarity of functions, structures, systems, and responsibilities of company organs so that company management is carried out effectively.
3. Responsibility, namely conformity (compliance) in the management of the company to sound corporate principles and applicable laws and regulations.
4. Independence, which is a condition where the company is managed professionally without conflict of interest and influence/pressure from management that is not by applicable laws and regulations and sound corporate principles.
5. Fairness (equality and reasonableness), which is fair and equal treatment in fulfilling the rights of stakeholders arising under applicable treaties and legal regulations.

The essence of corporate governance is the improvement of company performance through supervision or monitoring of management performance and management accountability to other stakeholders, based on the framework of applicable rules and regulations.

### **Performance of Cirebon Publications in the implementation of Good Corporate Governance (GCG)**

By implementing corporate governance with GCG, the company generates the profits obtained (Putra & Fidiana, 2017). Improve the efficiency of the company by creating better decision-making processes, improving the efficiency of company operations, and improving shareholder services.

1. Providing cheaper access to financing (due to the leverage factor), which ultimately increases shareholder value.
2. Restore investor confidence to invest in Indonesia.
3. Shareholders are satisfied with the company's results because at the same time increasing shareholder value and special dividends SOEs help maintain the state budget, especially from privatization proceeds.

The performance of a company is determined by how serious the implementation of good governance is. Companies included in IICG's corporate governance rating have performed good corporate governance and directly increased the value of their shares. The higher the implementation of the corporate governance system as measured by the corporate governance perception index, the higher the company's compliance and the better the company's results. In theory, good management practices can improve the efficiency of the company, reduce the risk that the board can make self-serving decisions, and in general, good management can increase investor confidence to invest capital, which has an impact on profits.

Based on this, the implementation of a corporate governance system ensures the possibility that management acts in the interests of shareholders. The implementation of good governance requires strong protection of the rights of shareholders, especially minority shareholders. The principles or guidelines for the implementation of the corporate governance system indicate that such protection does not only exist for shareholders but applies to all participants of the company, including the public.

#### **4. Conclusion**

In conclusion, the research underscores the critical role of Good Corporate Governance (GCG) as a cornerstone of the market economy, emphasizing its close connection to trust in both corporate entities and the broader business environment within a country. The study highlights GCG's significance in fostering healthy competition, creating a conducive business environment, and supporting sustainable economic growth and stability in Indonesia. The implementation of GCG is deemed essential not only for corporate success but also aligns with government efforts to instill good governance practices throughout the country. The definition of GCG, as outlined in various regulations and decrees, emphasizes its role in enhancing business success, corporate responsibility, and long-term shareholder value. The research underscores that GCG is particularly crucial in the banking sector, where consistent implementation strengthens competitive positions, maximizes company value, and builds trust among shareholders and stakeholders. The principles of GCG, including transparency, accountability, responsibility, independence, and fairness, are considered fundamental for effective corporate governance. The study also delves into the practical implementation of GCG in Indonesian publications, using Cirebon Publications as a case study. The commitment of Cirebon Publications to GCG is evident through the development of supporting tools and the active involvement of officials and directors. The research further identifies five basic principles of GCG and emphasizes their role in improving company performance, shareholder value, and investor confidence. Ultimately, the findings highlight the overarching importance of GCG in shaping governance structures that promote transparency, accountability, and fairness for the benefit of all stakeholders involved in a company.



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