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Applying the Principles of Good Corporate Governance in Corporate Financial Management

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ABSTRACT

This study aims to analyze the application of the principles of Good Corporate Governance (GCG) in corporate financial management. The method used in this research is descriptive qualitative research. The results of the research GCG principles that are applied are transparency, accountability, independence, and corporate social responsibility which have an impact on company management where 1) the principle of transparency refers to the openness and clarity of information provided by the company to stakeholders, 2) The principle of accountability emphasizes the importance company to be responsible for policies and actions taken in managing company finances, 3) The principle of responsibility emphasizes the importance of companies to pay attention to the interests of all stakeholders in making decisions and policies, 4) The principle of independence emphasizes the importance of companies to avoid conflicts of interest and maintain independence in decision making decisions, and 5) the principle of fairness emphasizes the importance of fair and equal treatment of all company stakeholders. The implication of this research is that companies must apply GCG principles in their financial management to achieve long-term success.

INTRODUCTION

The Cadbury Committee first used the phrase Good Corporate Governance (GCG) in its report, known as the Cadbury Report, in 1992. This report is regarded as a watershed moment in corporate governance processes around the world. Corporate governance (Corporate Governance), according to the Cadbury Committee, is a direct principle that controls the company to achieve a balance between the company's power and authority in providing accountability to shareholders (shareholders) in particular, and stakeholders in the company (stakeholders) (Tjandra & Suryanthi, 2017; Hermawan et al., 2022).

Several countries in Asia and Latin America in the 1990s were hit by an economic crisis caused by the failure of the principles of Good Corporate Governance (GCG) to be implemented by companies. According to a survey conducted by Booz-Allen in several countries in Asia in 1998, the results were that Indonesia obtained the lowest corporate governance index with a total score of 2,880, far below Singapore with a score of 8.99, Malaysia obtained a score of 7,720 and Thailand scored 4,890 (Kaihatu , 2006). Financial scandals in the company's business were triggered by weak implementation of corporate governance. According to Dewayanto (2010) since then it has been important and necessary to pay attention to the implementation of GCG in a business organization. Currently corporate governance is increasingly recognized by the business community, regulators and capital market authorities as a predictor of corporate performance (Lekaram, 2014).

Challenges are to blame for the dismal Corporate Governance score. The lack of penalties for corporations that don't follow corporate governance principles and cultural characteristics of the community that comply more with informal rules in the form of habits than formal laws are the biggest impediments to implementing corporate governance principles (Sudarmanto et al, 2021). Business as market players apply good corporate governance as a basic guideline for conducting business, while the community exercises social control in an objective manner, and the state and its

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apparatus as regulators must force companies to apply the principles of corporate governance and corporate culture as a harmonious value unit. As of 2016 (Mundzir).

Transparency, accountability, responsibility, independence, and fairness are the five pillars upon which the GCG principles rest. According to Mahaendrayasa and Putri (2017), the five GCG principles are as follows: (1) transparency refers to a company's commitment to being objective in its business dealings; (2) accountability refers to a company's commitment to taking responsibility for its performance; (3) responsibility refers to a company's duty to follow applicable laws and regulations; (4) independence refers to a company's commitment to being unaffiliated with any outside party; and (5) fairness refers to a company

Friendly (2017) claims that the very existence of a corporation indicates that it has a specific goal in mind. A company's vision and purpose are formal, articulated descriptions of what the company hopes to achieve through its operations. With a solid corporate governance structure in place, all of these predetermined goals can be realized (Hasanudin, 2021). Further, effective collaboration between all employees and upper management is essential. Establishing and enforcing corporate governance (GCG) principles within the organization's management procedures is essential to the success of this governance system (Hasanudin, 2021). It is envisaged that the organization will be able to live sustainably and deliver value to its stakeholders if its leaders are familiar with these generally applicable ideas. It has been shown that.

When it comes to maintaining a profitable and sustainable company, having solid financial management at the corporate level is of the utmost importance. Good Corporate Governance (also known as GCG) is a notion that plays a significant role in the financial management of companies. According to Gozali (2013), the implementation of GCG principles in corporate finance management can assist businesses in lowering their exposure to risk and increasing their profitability over the long run.

When it comes to maintaining a profitable and sustainable company, having solid financial management at the corporate level is of the utmost importance. The principles of Good Corporate Governance (GCG) are an extremely important notion to keep in mind when it comes to the management of a company's finances. These GCG principles encompass a wide range of topics, including things like accountability, independence, and social responsibility on the part of businesses. According to Pradana and Rikumahu (2014), the implementation of GCG principles in corporate finance management can assist businesses in lowering their risk exposure and increasing their profitability over the long run.

Managing a company's finances according to the GCG principles is something that a lot of businesses have started doing, but there are still a lot of businesses that don't comprehend or even recognize how vital it is to manage their finances according to these principles (Hartanto, 2009). As a result, the purpose of this study is to investigate how the GCG principles might be applied in the context of corporate finance management.

It is anticipated that the findings of this research will make a significant contribution toward enhancing knowledge and comprehension of how crucial it is to implement GCG principles while managing the financial affairs of corporations. It is envisaged that the company will be more motivated to follow GCG principles in managing its finances if it is shown the long-term benefits of putting these principles into practice, and this can be done by showing those benefits.

METHODS

The research method chosen is descriptive qualitative. Descriptive qualitative research, according to Leksono (2013) and Yulianah (2022), is an approach to a specific behavior, occurrence, event, problem, or circumstance that might become the target of examination, and the findings are in the form of meaningful sentence descriptions that explain certain understandings. The goal of this research is to adopt the Good Corporate Governance principles of transparency, accountability, responsibility, independence, and fairness or equality in the research subject of the company's financial management. This research relied on both primary and secondary data. The key data in this study were the findings of interviews with the research subject's principal director, head of administration, and production supervisor. Secondary data in this study refers to information derived from data processed by third parties, such as company profiles, firm establishment certificates, salary slips, proof of tax payments, and other documents that can be used to support corporate governance studies. The data analysis technique used in this study is qualitative analysis, which produces descriptive data, after which an explanation is gained and logical conclusions are drawn.

RESULTS AND DISCUSSION

The general principles of GCG which include transparency, accountability, responsibility, independence and fairness are very important to achieve corporate sustainability accompanied by recognizing the interests of stakeholders. The following is an explanation of the application of GCG principles in managing company finances.

1. **Transparency**

Transparency is a key principle in Good Corporate Governance (GCG) when it comes to corporate financial management. Transparency refers to a company's ability to deliver clear, accurate, and simple-to-understand information to stakeholders. This covers financial information, corporate strategy, risks, and measures done by the company.

The adoption of the transparency concept in corporate finance management can give numerous benefits. For starters, openness can boost stakeholder trust and confidence in the organization. The organization exhibits its commitment to operate with integrity and ethics by giving clear and open information. This can assist businesses in gaining support from key stakeholders such as investors, employees, and customers.

Second, transparency can help organizations lower their risks. Companies must be able to foresee and deal with developing hazards in an increasingly complex and dynamic business environment. Companies can acquire a better knowledge of the hazards they face and take necessary actions to mitigate these risks by providing clear and open information.

Third, openness can assist businesses in making better decisions. A corporation can acquire a better knowledge of its financial position and business performance by providing clear and open information. This can help corporate management make better judgments and take the necessary steps to improve the company's financial performance.

Fourth, transparency can assist businesses in meeting applicable legislation and legal requirements. Companies must ensure that their activities comply with applicable regulatory and legal standards in an increasingly regulated and regulated business environment. Companies can obtain a better understanding of applicable regulatory and legal requirements and take appropriate actions to comply with these requirements by providing clear and open information.

Fifth, transparency can help businesses improve their image and reputation. In an increasingly interconnected business environment, corporate image and reputation are critical in gaining the trust of stakeholders. The corporation can build a positive image and reputation as a company with integrity and honesty by offering clear and open information. This might assist the organization acquire support from key stakeholders and boost its market position.

2. Accountability

Accountability is a key tenet in Good Corporate Governance (GCG) when it comes to financial management. Accountability refers to the company's obligation to be accountable for its actions and decisions in managing its finances. In this context, accountability means meeting the company's commitments to stakeholders, complying with applicable laws and regulations, and maintaining high ethical standards.

The use of the accountability principle in the management of firm finances can give numerous benefits. For starters, accountability can boost stakeholder trust and confidence in the organization. By demonstrating accountability for its acts and decisions, the organization demonstrates its commitment to operating with integrity and good ethics. This can assist businesses in gaining support from key stakeholders such as investors, employees, and customers.

Second, accountability can help enhance the financial performance of the organization. In an increasingly competitive business environment, organizations must be able to demonstrate good performance in order to preserve stakeholders' trust and acquire the necessary support. Companies can enhance financial performance and gain the trust of investors and the market through strengthening accountability.

Third, accountability can assist businesses in making better decisions. Companies must be able to identify and deal with new hazards in an increasingly complicated business environment. A corporation can obtain a better awareness of the risks it confronts and take appropriate actions to mitigate those risks by enhancing its accountability.

Fourth, accountability can help businesses satisfy legal and regulatory requirements. Companies must ensure that their activities comply with applicable regulatory and legal standards in an increasingly regulated and regulated business environment. Companies can verify that their activities comply with these criteria and limit any legal risks by strengthening their accountability.

Fifth, accountability can help businesses improve their image and reputation. In an increasingly interconnected business environment, corporate image and reputation are critical in gaining the trust of stakeholders. The corporation can improve its image and reputation as a company with integrity and honesty by enhancing its accountability. This might assist the organization acquire support from key stakeholders and boost its market position.

3. Responsibility

The third principle of Good Corporate Governance (GCG) is responsibility, which is related to the company's financial management. This principle underlines the need of firms being accountable for the consequences of their business decisions and activities. Companies must operate responsibly and consider the interests of all stakeholders, including investors, employees, customers, and the community at large.

Companies must comprehend the implications of each decision they make and accept responsibility for their actions while using the principle of responsibility. The corporation must ensure that decisions are made that not just benefit the company but also respect the rights and interests of all stakeholders. Companies must consider social and environmental principles when conducting business in this climate.

The adoption of the responsibility concept can give numerous benefits to the firm. For starters, businesses can acquire the trust of key stakeholders such as investors, employees, and customers. By demonstrating that the firm is accountable for its activities and decisions, it can establish a favorable image as a company that cares about the interests of all stakeholders.

Second, applying the idea of accountability can help businesses reduce reputation risk. A company's reputation is crucial in obtaining the trust of consumers and other stakeholders in an increasingly connected business world. By proving that the company is accountable for its activities and decisions, it can reduce reputational risks that could affect the company's market position.

Third, implementing the accountability concept can assist businesses in achieving long-term sustainability. Companies must consider social, environmental, and economic factors when conducting business in an increasingly linked and regulated business world. Companies may ensure that their operations are sustainable and do not harm the environment or local communities by taking responsible actions.

4. Independence

The fourth pillar of Good Corporate Governance (GCG) relating to the company's financial management is independence. This principle highlights the necessity of independence in making financial management decisions and actions. This means that decisions must be made objectively and without regard for personal interests or specific groups.

Companies must ensure that decisions are made by people who have integrity and independence while using the principle of independence. This indicates that personal interests or specific groupings have no influence on decision making. People participating in decision-making must be competent and qualified to carry out their responsibilities.

The use of the independence concept can give numerous benefits to the firm. For starters, this idea can help businesses make more objective and sensible judgments. There is frequently a conflict of interest between the persons involved while making decisions. Companies that prioritize independence can make more objective decisions that are not swayed by personal interests or specific groups.

Second, applying the principle of independence can help businesses reduce the risk of fraud and deception. The risk of fraud and deception is quite significant in an increasingly complicated business environment. Companies that prioritize independence can avoid conflicts of interest and fraud that can hurt the company and its stakeholders.

Third, applying the principle of independence can help businesses acquire the trust of stakeholders. In business, trust is critical for developing positive connections with customers, investors, and other stakeholders. The corporation can develop a positive image as an honest and ethical company by demonstrating that it prioritizes independence in decision making.

5. Fairness

Fairness or impartiality is the fifth and final pillar of Good Corporate Governance (GCG), which pertains to the management of a company's financial resources. This principle places an emphasis on the significance of treating all firm stakeholders in a fair and equal manner, including employees, customers, investors, and the general public.

When using the principle of justice, the corporation has a responsibility to make certain that the policies and procedures that are put into place are able to offer comparable advantages to all of the parties that are involved. In this situation, businesses have a duty to refrain from prejudice and make certain that all parties receive the same treatment.

The implementation of the principle of justice can result in a multitude of positive outcomes for businesses. To begin, adhering to this principle can facilitate the development of positive relationships between businesses and various stakeholders. Companies need to be able to keep their connections with their many stakeholders in good standing in order to thrive in today's very competitive business climate. Businesses have the ability to cultivate relationships with consumers, investors, and society that are mutually beneficial if they place an emphasis on fairness.

Second, putting the principle of fairness into practice can be of assistance to businesses in enhancing the contentment and motivation of their staff members. Employees have a greater propensity to report feeling valued and acknowledged in work environments that are perceived to be fair. This has the potential to boost motivation and performance among workers while also contributing to the accomplishment of the organization's objectives.

Thirdly, the implementation of the principle of justice can help businesses win the trust and support of the community, which is an important factor in the success of any endeavor. Companies need to be able to develop a positive image of themselves as being honest and responsible in order to succeed in today's increasingly complex business climate. It is possible for a business to acquire the trust and support of society if it can demonstrate that it adheres to principles of fairness in all of its operations, policies, and procedures.

Fourth, the implementation of the principle of fairness can be of assistance to businesses in their pursuit of sustainable growth over the long term. Companies need to be able to swiftly and efficiently adapt in order to thrive in a business climate that is becoming increasingly complex and volatile. Companies are able to garner the support and engagement of stakeholders, which is necessary for achieving sustainable growth over the long term, if they make justice a priority in all of their policies and procedures.

CONCLUSION

The implementation of Good Corporate Governance (GCG) principles in managing corporate finances is critical to achieving optimal company goals. Transparency, accountability, responsibility, independence, and fairness are the five GCG principles that must be followed when handling corporate money. The use of GCG principles in business finance can give considerable benefits for firms, such as building trust, boosting decision-making efficacy, developing strong connections with stakeholders, and attaining long-term sustainable growth. As a result, firms must pay close attention to the use of GCG principles in financial management in order to achieve the desired success and business sustainability.

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