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Implementation of Good Corporate Governance (GCG) and ESG in State Owned Enterprises in Indonesia

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Abstract

Good Corporate Governance (GCG) and Environmental, Social, and Governance (ESG) are increasingly important concepts in the development of modern corporate law, particularly within State-Owned Enterprises (SOEs) in Indonesia. The implementation of GCG aims to establish companies that are transparent, accountable, responsible, independent, and fair, while ESG emphasizes corporate sustainability through environmental, social, and governance dimensions. In practice, several Indonesian SOEs continue to face various legal and governance issues, such as corruption, conflicts of interest, weak supervision, and suboptimal implementation of corporate sustainability principles. This study aims to analyze the implementation of Good Corporate Governance and ESG in Indonesian SOEs and to identify the challenges encountered in their application. This research employs a normative legal research method using statutory, conceptual, and case approaches. The primary legal materials include Law Number 19 of 2003 concerning State-Owned Enterprises, Law Number 40 of 2007 concerning Limited Liability Companies, as well as various regulations related to corporate governance and ESG. The findings indicate that the implementation of GCG and ESG in Indonesian SOEs has shown progress, particularly in improving corporate transparency, strengthening supervisory functions, and adopting corporate sustainability programs. However, implementation still faces several challenges, including political intervention, weak independence of corporate organs, and the lack of comprehensive ESG regulations and effective supervision. Therefore, stronger regulatory frameworks, enhanced corporate accountability, and more effective oversight mechanisms are required to achieve sound and sustainable governance within Indonesian SOEs.

INTRODUCTION

State-Owned Enterprises (BUMN) play a strategic role in Indonesia's national economic development. As enterprises whose capital is partially or wholly owned by the state, BUMN are not only oriented toward profit generation but also carry the mandate of providing public services, maintaining national economic stability, and supporting government policy implementation (Alim, 2025; Utoyo et al., 2019). This dual function positions BUMN as a key instrument of the state in achieving sustainable economic development and public welfare (Ansari, 2019; Tonggo, 2026; Wiwoho & Handayani, 2021).

However, in practice, BUMN face various challenges related to corporate governance and business management. Several cases involving major SOEs, such as Jiwasraya, Asabri, Garuda Indonesia, and Waskita Karya, indicate persistent weaknesses in the implementation of Good Corporate Governance (GCG) (Saputra et al., 2025; Wardah, 2025). These issues include abuse of authority, weak internal controls, conflicts of interest, financial reporting manipulation, and corrupt practices that have resulted in significant state losses. Such conditions demonstrate that the implementation of GCG in BUMN has not yet been fully optimal (Arda et al., 2023; Napitupulu et al., 2023; Sinaga et al., 2025).

Good Corporate Governance (GCG) refers to a set of principles designed to ensure that companies operate in a transparent, accountable, responsible, independent, and fair manner. In corporate law, GCG is closely related to the fiduciary duties of directors and commissioners in managing the company in accordance with the principles of prudence and corporate interest protection (Rahmi, 2026; Widodo & Riswadi, 2025). The proper implementation of GCG is essential to ensure business sustainability and to strengthen trust among investors, stakeholders, and the public (Efunniyi et al., 2024; Emeka-Okoli et al., 2024; Prayitno, 2025).

In addition to GCG, global business development has increasingly emphasized the importance of Environmental, Social, and Governance (ESG) principles. ESG represents a sustainability framework that integrates environmental responsibility, social considerations, and governance quality into corporate strategy (Hoang, 2018; Karwowski & Raulinajtys-Grzybek, 2021). It is no longer viewed merely as corporate social responsibility, but as a core indicator of long-term business sustainability and investment attractiveness. Global investors increasingly use ESG performance as a key consideration in investment decision-making due to its impact on risk management and corporate reputation (Ma, 2023; Park & Jang, 2021; Rounok et al., 2023).

In Indonesia, ESG implementation in BUMN has begun to gain attention, particularly with increasing demands for state-owned enterprises to operate sustainably and responsibly. The Ministry of State-Owned Enterprises has encouraged the adoption of ESG principles through strengthening governance structures, environmental responsibility programs, social impact initiatives, and corporate transparency. Several large SOEs such as Pertamina, PLN, Telkom Indonesia, and Bank Mandiri have begun integrating ESG frameworks into their corporate strategies.

Despite these developments, the implementation of GCG and ESG in Indonesian BUMN still faces significant obstacles. Political intervention in corporate management, limited independence of corporate organs, weak corporate culture supporting transparency, and the absence of comprehensive ESG regulations and supervision remain major challenges. In many cases, GCG and ESG principles are implemented only at a formal or administrative level, rather than being fully embedded in corporate practice.

From a corporate law perspective, GCG and ESG are closely linked to the fiduciary responsibility of corporate organs, stakeholder protection, and long-term corporate sustainability. Therefore, a deeper evaluation is needed to assess the effectiveness of their implementation and the legal and practical constraints that hinder their enforcement in BUMN.

The urgency of this research is reinforced by the magnitude of state financial losses resulting from governance failures in several SOEs. Cases such as Jiwasraya and Asabri, which resulted in trillions of rupiah in losses, highlight the critical importance of strengthening governance systems. In addition, global sustainability agendas such as the United Nations Sustainable Development Goals (SDGs) and the Paris Agreement further pressure Indonesian SOEs to adopt ESG principles more seriously. Without effective implementation of GCG and ESG, BUMN risk reduced competitiveness in global markets and diminished investor confidence.

The novelty of this research lies in its integrated analysis of Good Corporate Governance and ESG within a unified normative legal framework focused on Indonesian SOEs, combined with a case-based approach to examine concrete governance failures and their legal implications.

Based on this background, this study addresses three main research questions: (1) how is the implementation of Good Corporate Governance in Indonesian BUMN; (2) how is ESG implemented within BUMN governance; and (3) what are the main obstacles in implementing GCG and ESG in Indonesian State-Owned Enterprises. This research is expected to contribute to the development of corporate law studies, particularly in relation to governance reform and sustainability of state-owned enterprises in Indonesia.

METHOD

This study employs a normative legal research method, focusing on the examination of legal norms governing the implementation of Good Corporate Governance (GCG) and Environmental, Social, and Governance (ESG) principles within State-Owned Enterprises (BUMN) in Indonesia. Normative legal research is conducted through the analysis of statutory regulations, legal doctrines, principles of corporate governance, and relevant scholarly literature related to corporate law and corporate sustainability.

The approaches applied in this study include the statutory approach, conceptual approach, and case approach. The statutory approach is used to examine relevant legal instruments governing corporate governance and state-owned enterprises, including Law No. 19 of 2003 concerning State-Owned Enterprises, Law No. 40 of 2007 concerning Limited Liability Companies, as well as regulations issued by the Financial Services Authority (OJK) and the Ministry of State-Owned Enterprises relating to GCG and ESG implementation.

The conceptual approach is employed to analyze key legal concepts such as Good Corporate Governance, Environmental, Social, and Governance (ESG), fiduciary duty, business judgment rule, and stakeholder theory within corporate law. This analysis is conducted through the study of legal doctrines and scholarly opinions, as well as internationally recognized corporate governance principles.

Meanwhile, the case approach is used to examine several governance-related cases in Indonesian state-owned enterprises, including PT Asuransi Jiwasraya, PT Asabri, PT Garuda Indonesia, and PT Waskita Karya. These cases are analyzed to identify how GCG and ESG principles are implemented in practice and to explore legal issues arising in the governance of SOEs.

The legal materials used in this study consist of primary, secondary, and tertiary legal sources. Primary legal materials include legislation, court decisions, and official regulations related to corporate governance and ESG. Secondary legal materials consist of books, academic journals, scholarly articles, and previous research discussing corporate law, GCG, and ESG. Tertiary legal materials include legal dictionaries, encyclopedias, and other supporting reference sources relevant to the study.

The collection of legal materials is conducted through library research by systematically reviewing relevant legal literature, academic journals, official government documents, and other scholarly sources. The collected materials are then analyzed using a qualitative descriptive-analytical method, which involves describing and interpreting legal provisions and connecting them with the implementation of GCG and ESG in Indonesian SOEs.

The results of the analysis are systematically organized to draw conclusions regarding the effectiveness of corporate governance and corporate sustainability practices within Indonesian State-Owned Enterprises.

RESULTS AND DISCUSSION

The Concept of Good Corporate Governance and ESG in Corporate Law

Good Corporate Governance (GCG) refers to a set of corporate governance principles aimed at creating sound, transparent, and accountable corporate management. Within corporate law, the implementation of GCG is essential to maintain a balance between the interests of the company, shareholders, the state, and other stakeholders. The fundamental principles of GCG generally include transparency, accountability, responsibility, independence, and fairness. These principles are intended to ensure that companies operate in a professional, ethical, and sustainable manner.

In the context of State-Owned Enterprises (BUMN), the implementation of GCG holds a particularly significant position, as SOEs do not merely operate as business entities but also carry public service functions and serve as instruments for government policy implementation. Accordingly, good corporate governance becomes a crucial mechanism to prevent abuse of authority, conflicts of interest, and corrupt practices in SOE management.

In addition to the concept of GCG, the development of the global business environment has increasingly emphasized the importance of Environmental, Social, and Governance (ESG) principles. ESG is a corporate governance framework that highlights corporate sustainability through the integration of environmental, social, and governance dimensions. The environmental aspect relates to a company's responsibility toward environmental sustainability, the social aspect concerns relationships with communities and employees, while the governance aspect focuses on transparency, accountability, and ethical corporate management.

The implementation of ESG has become increasingly important as global investors no longer focus solely on profitability but also consider long-term sustainability and corporate social impact. Consequently, ESG has become an integral part of corporate strategy, serving to enhance corporate reputation, mitigate business risks, and improve competitiveness at the international level.

Implementation of Good Corporate Governance in State-Owned Enterprises in Indonesia

The implementation of Good Corporate Governance (GCG) in Indonesian State-Owned Enterprises (BUMN) is fundamentally regulated through various legal instruments, including Law No. 19 of 2003 concerning State-Owned Enterprises, Law No. 40 of 2007 concerning Limited Liability Companies, as well as various regulations issued by the Ministry of State-Owned Enterprises regarding corporate governance guidelines. Through these regulatory frameworks, the government mandates SOEs to implement the core principles of GCG, namely transparency, accountability, responsibility, independence, and fairness in corporate management.

In practice, the implementation of GCG within BUMN has shown several positive developments, including improvements in financial reporting transparency, strengthening of internal audit functions, and the enhancement of corporate supervisory mechanisms. In addition, several SOEs have adopted risk management systems and technology-based monitoring tools to improve the effectiveness of corporate governance practices.

However, despite these developments, various cases involving SOEs indicate that the implementation of GCG remains suboptimal. Cases such as PT Asuransi Jiwasraya and PT Asabri reveal practices of authority abuse and weaknesses in internal control systems that have resulted in significant state financial losses. Similarly, the case of financial statement manipulation at PT Garuda Indonesia demonstrates that the principles of transparency and accountability have not yet been fully implemented in practice.

Another recurring issue in SOE governance is political intervention in corporate decision-making processes. Such intervention may undermine the independence of directors and boards of commissioners, thereby affecting the professionalism of corporate management. In several cases, the appointment of directors and commissioners has been influenced by political interests, which weakens the implementation of the independence principle as a core element of Good Corporate Governance.

Implementation of ESG in SOEs in Indonesia

The implementation of Environmental, Social, and Governance (ESG) principles in Indonesian State-Owned Enterprises (BUMN) has begun to develop in line with increasing global attention to corporate sustainability and corporate social responsibility. The Indonesian government, through the Ministry of State-Owned Enterprises and the Financial Services Authority (OJK), has encouraged SOEs to adopt sustainability principles in their business activities.

From an environmental perspective, several SOEs have initiated environmentally friendly policies, including the development of renewable energy, reduction of carbon emissions, and improved corporate waste management systems. For instance, PT PLN (Persero) has initiated an energy transition program toward renewable energy development as part of its ESG implementation. Similarly, PT Pertamina has introduced decarbonization initiatives aimed at reducing emissions in its operational activities.

From a social perspective, SOEs implement various corporate social responsibility (CSR) programs, including community empowerment, labor protection, and the development of micro, small, and medium enterprises (MSMEs). These initiatives aim to strengthen relationships between corporations and society while supporting sustainable social development.

In terms of governance, ESG implementation is closely related to corporate transparency, strengthening internal control systems, preventing corruption, and improving corporate accountability. Several SOEs have also begun adopting sustainability reporting as a form of transparency to stakeholders, including the public and investors.

However, the implementation of ESG in Indonesian SOEs still faces several challenges. One of the main obstacles is the lack of comprehensive ESG regulations in Indonesia, as well as inconsistencies in ESG implementation standards across companies. In addition, ESG is still often perceived as a mere administrative requirement rather than being fully integrated into long-term corporate strategy.

Obstacles and Challenges to Implementing GCG and ESG in State-Owne Enterprises

The implementation of Good Corporate Governance (GCG) and Environmental, Social, and Governance (ESG) in Indonesian State-Owned Enterprises (BUMN) faces various structural and cultural challenges. One of the primary obstacles is political intervention in SOE management. As state-owned entities, BUMN often function as instruments of government policy, resulting in business decisions that are not always based on principles of professionalism, efficiency, and sound corporate governance.

In addition, the lack of independence of corporate organs also hinders the effective implementation of GCG. Directors and boards of commissioners in several SOEs still face external pressures that may influence the objectivity of corporate decision-making. Such conditions create potential conflicts of interest and weaken the effectiveness of internal supervision mechanisms.

In terms of ESG implementation, several challenges remain, including the absence of comprehensive regulatory standards for ESG in SOEs, limited understanding of sustainability concepts within corporations, and the relatively high costs associated with ESG implementation. Furthermore, the phenomenon of “ESG washing” has emerged, where companies project a sustainability image at a formal level without substantive implementation in operational practices.

Therefore, strengthening regulatory frameworks, improving the quality of corporate supervision, and fostering a corporate culture that supports transparency and sustainability are essential. In addition, the government needs to reinforce the independence of directors and commissioners and ensure more consistent implementation of ESG principles across all Indonesian State-Owned Enterprises.

CONCLUSION

Good Corporate Governance (GCG) and Environmental, Social, and Governance (ESG) are important frameworks in modern corporate governance aimed at creating companies that are transparent, accountable, responsible, independent, and sustainable. In the context of State-Owned Enterprises (BUMN), the implementation of GCG and ESG plays a strategic role, as SOEs not only function as business entities but also carry public service obligations and contribute to national economic development.

The implementation of Good Corporate Governance in Indonesian BUMN is fundamentally regulated through various legal instruments and has evolved through improvements in corporate transparency, strengthening internal supervisory functions, and the implementation of corporate risk management systems. In addition, several SOEs have begun to adopt Environmental, Social, and Governance principles through sustainability programs, environmentally friendly energy development, corporate social responsibility initiatives, and improved corporate transparency to the public.

However, the implementation of GCG and ESG in BUMN still faces various challenges. Political intervention in corporate management, limited independence of directors and boards of commissioners, conflicts of interest, and suboptimal supervisory mechanisms indicate that the principles of good corporate governance have not yet been fully implemented effectively. Furthermore, ESG implementation in some SOEs remains largely administrative in nature and has not yet been fully integrated into long-term sustainable business strategies.

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