

## IMPLEMENTATION OF GOOD CORPORATE GOVERNANCE ON MSMEs IN INDONESIA AND AMERIKA

Nanang Asfufi<sup>1</sup>, Wike Pratiwi<sup>2</sup>

<sup>1</sup>Universitas Ibrahimy Situbondo, Indonesia

<sup>2</sup>Politeknik Negeri Pertanian Samarinda, Indonesia

newasfufi2022@gmail.com<sup>1</sup>, wikepratiwi72@gmail.com<sup>2</sup>

### ABSTRACT

*Good corporate governance (GCG) is a key strategy to ensure the openness, accountability, and efficiency of micro, small, and medium-sized enterprises (MSMEs) in the USA and Indonesia. This study's objective is to ascertain the extent to which research is pertinent to the implementation of GCG in MSMEs. The study employs a descriptive qualitative method for this purpose. The research uses a library research methodology. The results of the study have shown that there are several key indicators that can be used to evaluate and improve GCG practices in these companies. The USA has placed a strong emphasis on competence-oriented governance and design, with Functional background and IT proficiency are necessary in the boardroom to comprehend how IT affects business operations and strategic goals. The findings also emphasize the significance of independence, justice, and accountability as critical metrics for assessing and enhancing GCG practice in these businesses.*

**Keywords:** *Good Corporate Governance, MSMEs*

### 1. Introduction

Ensuring the openness, accountability, and efficiency of micro, small, and medium-sized enterprises (MSMEs) in America and Indonesia requires the application of good corporate governance (GCG). Laws like Undang-Undang No. 40 Tahun 2007 have been passed by the Indonesian government to establish and uphold a two-tier system of governance that divides the power between management and supervision within the top management team (TMT). By supervising the directors and monitoring the performance of the management team, the Board of Commissioners serves as the shareholders' representative in the board room.

The goal of GCG is to enhance business performance through responsible and efficient management. This relates to the management team's capacity for strategic decision-making and transparent, accountable goal-achieving. The importance of GCG practices in MSMEs is demonstrated by the enormous influence that TMT qualities, such as competency and IT abilities, can have on financial success (Syofyan & Putra, 2020).

The GCG method is also necessary for MSMEs to prosper in America. According to research, knowing how IT affects business operations and strategic goals requires board-level IT control. The board's ability to participate in the digital age may be hampered by a lack of IT expertise in the room. The application of GCG has an impact on the growth of MSMEs in ASEAN, which includes Indonesia and Thailand. In order to maintain their viability and competitiveness in the market, MSMEs must implement GCG practices as they develop and grow (Martínez-Peláez et al., 2023) (Wiardi & Saputra, 2022)

Here's a closer look at some of the common problems plaguing MSMEs in both Indonesia and the USA:

**Indonesia:**

- Limited Access to Capital:** Securing funding for growth and expansion can be difficult due to a lack of collateral or a proven track record.
- Technological Bottlenecks:** Adoption of modern technologies can be hindered by affordability and a lack of technical expertise.
- Restricted Market Access:** Reaching new markets and competing with larger players can be challenging for smaller businesses.
- Informal Practices:** Some MSMEs operate informally, hindering transparency and limiting access to formal financial services.

**USA:**

- Competition:** The competitive landscape in the US is fierce, with MSMEs facing pressure from established corporations and large businesses.
- Healthcare Costs:** Providing healthcare benefits for employees can be a significant financial burden for smaller businesses.

Regulatory Compliance: Navigating the complex web of regulations can be time-consuming and expensive for MSMEs.

Talent Acquisition: Attracting and retaining skilled workers can be challenging, especially when competing with larger companies offering higher salaries and benefits. These problems can significantly impact the growth and sustainability of MSMEs. Fortunately, implementing Good Corporate Governance (GCG) can empower MSMEs to overcome these obstacles. The Role of Good Corporate Governance (GCG). GCG encompasses a set of principles and practices that guide companies towards efficient, transparent, and accountable operations. By embracing GCG, MSMEs can unlock numerous benefits, including:

Enhanced Access to Capital: Strong GCG practices instill confidence in investors, making it easier for MSMEs to secure funding for expansion and growth. Boosted Investor Confidence: Transparency and accountability fostered by GCG attract investors seeking reliable and well-managed businesses. Improved Financial Performance: Sound decision-making and risk management, hallmarks of GCG, contribute to better financial health and profitability for MSMEs. Enhanced Market Reputation: A strong reputation built on ethical practices can attract new customers and partners.

However, implementing GCG in MSMEs faces distinct challenges in both Indonesia and the USA, as we will explore in the next section. In summary, the implementation of the GCG is critical to the growth and prosperity of MSMEs in Indonesia and America. The implementation of good corporate governance is essential for MSMEs (Micro, Small, and Medium Enterprises) in both Indonesia and the USA. In Indonesia, the Corporate Governance Manual and Roadmap are key documents that aim to improve existing regulation and increase the understanding of corporate governance practices. These documents are designed to strengthen the supervising role of company boards, increase the quality of disclosure, and protect the rights of shareholders and stakeholder. (Otoritas Jasa Keuangan, 2014)

In the USA, the Securities and Exchange Commission (SEC) and other regulatory bodies enforce corporate governance practices to ensure transparency and accountability. Public companies in the USA are required to disclose information about their governance practices, including the structure of their boards of directors and the role of independent directors. Good corporate governance practices can lead to increased transparency, improved performance, and a more attractive investment climate. Companies that adhere to these practices are more likely to attract investors and achieve long-term success Otoritas Jasa Keuangan, (2014)

These businesses can focus on transparent, responsible, and efficient management to boost performance and better serve the interest of their shareholders. The study's objective is to ascertain the extent to which research is pertinent to the implementation of good corporate governance on MSMEs that have been completed during the last five years and published in journals in America and Indonesia.

## 2. Theoretical Foundations

While the importance of Good Corporate Governance (GCG) for large corporations is well established, its application to Micro, Small, and Medium Enterprises (MSMEs) requires a nuanced theoretical foundation. Here, we explore some key theories that inform the implementation of GCG in MSMEs across Indonesia and the USA. Valentine & Stewart, (2015) Nurfitriana, (2023).

### a. Agency Theory

This theory proposes a relationship between a principal (owner) and an agent (manager). In the context of MSMEs, the owner may be the manager as well. Agency theory emphasizes the need for mechanisms to align the interests of the owner with the goals of the business. GCG practices such as clear ownership structures, transparent decision-making, and independent oversight can help mitigate potential conflicts of interest and ensure the owner's goals (e.g., growth, profitability) are pursued effectively.

### b. Stewardship Theory:

In contrast to agency theory's focus on self-interest, stewardship theory posits that managers act as stewards who are committed to the long-term success of the business. This aligns well with the

aspirations of many MSME owners who are deeply invested in their businesses. GCG practices that promote a culture of ownership, ethical conduct, and long-term planning resonate with this theory and can foster a more responsible and sustainable approach to management.

c. **Institutional Theory:**

This theory highlights the influence of external institutions like regulatory bodies, industry norms, and cultural expectations on organizational behavior. In Indonesia, for example, a growing emphasis on ethical business practices might encourage MSMEs to adopt GCG principles to maintain legitimacy and social acceptance. Similarly, in the USA, pressure from investors for transparency and accountability might drive MSMEs towards GCG practices.

d. **Resource Dependence Theory:**

MSMEs often rely on external resources like loans, raw materials, and skilled labor. This theory suggests that firms that demonstrate good governance practices are perceived as more reliable and trustworthy by external stakeholders. By implementing GCG, MSMEs can potentially improve their access to critical resources and enhance their bargaining power with suppliers and lenders.

e. **Stakeholder Theory:**

This theory broadens the focus beyond shareholders to consider all stakeholders impacted by the business, including employees, customers, and the community. GCG practices that promote ethical treatment of employees, environmental responsibility, and community engagement can not only enhance a MSME's reputation but also foster a more sustainable and socially responsible business model.

These theories provide a framework for understanding how GCG can address the specific challenges faced by MSMEs in Indonesia and the USA. By applying these principles within their unique contexts, MSMEs can unlock the benefits of good governance and pave the way for sustainable growth and success. Valentine & Stewart, (2015)

One of the main things preventing boards from being more involved in the digital age is a lack of IT proficiency in the room. In conclusion, the ideas of accountability, efficiency, and openness in business management serve as the theoretical cornerstones of using GCG in MSMEs. MSMEs can enhance their performance and more effectively cater to the interests of their shareholders by prioritizing professional TMTs, accurate information sharing, and efficient management.

### 3. Research Methods

According to (Ramdhan, 2013), This research will employ a literature review methodology to examine the implementation of Good Corporate Governance (GCG) in Micro, Small, and Medium Enterprises (MSMEs) across Indonesia and the USA. Here's a breakdown of the key stages involved:

#### Topic Identification and Research Questions:

The initial stage involves defining the broad topic of GCG implementation in MSMEs. Subsequently, we will refine this by formulating specific research questions. These questions will guide the literature search and analysis, focusing on aspects like What are the existing models or frameworks for GCG implementation in MSMEs? How do the challenges of GCG implementation differ between Indonesian and American MSMEs? What are the reported benefits and drawbacks of GCG adoption in MSMEs across both countries?

#### Literature Search Strategy:

We will utilize various academic databases relevant to business, management, and economics to locate scholarly articles, journals, and books. Some potential databases include EBSCOhost, JSTOR, Emerald Insight, Google Scholar. Keywords related to GCG, MSMEs, Indonesia, USA, and implementation will be used to conduct a comprehensive search. Inclusion and exclusion criteria will be established to ensure the retrieved literature aligns with the research questions and focuses on peer-reviewed academic sources.

#### Selection and Evaluation of Literature:

Once the initial search yields results, each source will be critically evaluated based on its relevance, credibility, and methodological rigor. Selection criteria will be applied to ensure the chosen literature directly addresses the research questions and offers valuable insights into GCG implementation in MSMEs of Indonesia and the USA.

### **Data Extraction and Analysis:**

From the selected literature, key information will be extracted. This might include: Models or frameworks for GCG implementation in MSMEs Identified challenges faced by MSMEs in each country Reported benefits and drawbacks of GCG adoption Comparisons between GCG practices in Indonesia and the USA Techniques like thematic analysis will be employed to identify recurring themes and patterns across the literature, allowing us to draw meaningful conclusions about GCG implementation in MSMEs.

### **Synthesis and Reporting:**

The extracted data and analysis will be synthesized to provide a comprehensive picture of GCG implementation in MSMEs of Indonesia and the USA. This synthesis will address the research questions and highlight key findings. The literature review will be documented in a clear and concise manner within the research paper, potentially dedicated chapters or sections for Indonesian and American MSMEs, followed by a comparative analysis.

### **Additional Considerations:**

Given the potential for a vast amount of literature, employing search filters and date restrictions can be helpful for narrowing down results. Utilizing a reference management tool can streamline the organization and referencing of retrieved sources. By following these stages, the literature review will provide a robust foundation for understanding how GCG is implemented in MSMEs across Indonesia and the USA, highlighting the unique challenges and opportunities faced in each context.

## **4. Results and Discussion**

The results of research conducted on the implementation of good corporate governance (GCG) in MSMEs in Indonesia and the USA have shown that there are several key indicators that can be used to evaluate and improve GCG practices in these businesses. Here are some of the main findings:

- **Transparency**  
This indicator focuses on the separation of company and personal finances, transparency of rights and obligations of employees, and the transparency of financial statements. MSMEs with better transparency scores have been found to have better performance and a higher likelihood of survival (Almeida et al., 2016)
- **Accountability:** Human resources, marketing, financial, and operational functions are important aspects of accountability in GCG. Companies with strong accountability practices have been shown to have better performance and a higher likelihood of success (Almeida et al., 2016)
- **Responsibility:** Business legality, waste management, and product certification are key components of responsibility in GCG. MSMEs that prioritize these aspects have been found to have better performance and a higher likelihood of survival (Almeida et al., 2016)
- **Independence:** Profitability and autonomy in managing the business are important indicators of independence in GCG. Companies with strong independence practices have been shown to have better performance and a higher likelihood of success (Almeida et al., 2016)
- **Fairness:** Equal opportunity in a company career and a fair compensation system are crucial aspects of fairness in GCG. MSMEs that prioritize fairness have been found to have better performance and a higher likelihood of survival (Almeida et al., 2016)

**Tabel 1 . Good Corporate Governance (GCG) Implementation in MSMEs: Indonesia vs. USA**

Feature	Indonesia	USA
<b>Emphasis</b>	Importance recognized, frameworks exist for	More established and codified, strong emphasis on
	larger entities, but adoption in MSMEs	regulations and compliance for all companies.
	is encouraged but not mandatory.	
<b>Key Drivers</b>	- Improved performance and competitiveness	- Investor confidence and access to capital
	- Reduced risk	- Increased transparency and accountability
<b>Challenges</b>	- Lack of awareness and resources	- Cost of compliance, especially for smaller firms
	- Owner-managed structures may resist change	
<b>Frameworks/Initiatives</b>	- National Committee for Corporate Governance	- Sarbanes-Oxley Act (SOX)
	- Ministry of BUMN Regulations (for State-Owned	- Dodd-Frank Wall Street Reform and Consumer
	Enterprises)	Protection Act
<b>Focus</b>	- Transparency, accountability, responsibility	- Similar principles, with additional emphasis on

		internal controls and financial reporting.
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Both Indonesia and the USA acknowledge the importance of GCG for MSMEs. However, the level of emphasis, regulatory frameworks, and challenges faced differ between the two countries. In Indonesia, research has shown that there is a lack of understanding of GCG principles among companies and that organizational culture plays a role in the implementation of GCG. However, the government has recognized the importance of Two-Tier-System governance and has made efforts to improve GCG through national policies, perfecting regulations, and developing private sector initiative (Syofyan & Putra, 2020). In the USA, the focus on design and competence-oriented governance has been emphasized, as functional background and IT competency within the boardroom are essential for understanding the impact of IT on business operations and strategic goals (Syofyan & Putra, 2020). Overall, these results highlight the importance of GCG in MSMEs and the need for effective implementation strategies to improve governance practices in these business (Htay & Salman, 2013).

## 5. Conclusion

The results of the study on the application of good corporate governance (GCG) in micro, small, and medium-sized enterprises (MSMEs) in the USA and Indonesia emphasize the significance of a number of critical indicators, such as accountability, transparency, responsibility, independence, and fairness, for assessing and enhancing GCG practices in these companies. According to the findings, MSMEs that use superior GCG practices perform better and are more likely to survive. GCG principles are not well understood by businesses in Indonesia, and organizational culture affects how GCG is applied. But the government has acknowledged the value of two-tier system governance and has worked to strengthen GCG by creating private sector initiatives, refining legislation, and establishing national policies. The USA has placed a strong emphasis on competence-oriented governance and design, with Functional background and IT proficiency are necessary in the boardroom to comprehend how IT affects operations and strategic objectives. These conclusions are corroborated by the search results, which also highlight the necessity of a strong commitment from all parties involved—including the government—in order to create GCG practices that are tailored to regional norms and values. The findings also emphasize the significance of independence, justice, accountability, openness, and fairness as critical metrics for assessing and enhancing GCG practices in MSMEs.

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