

## **Factors influencing the implementation of good corporate governance in the public sector**

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### **Abstract**

This study analyzes the factors influencing the implementation of Good Corporate Governance (GCG) in public sector organizations in Indonesia. GCG, which has its roots in private practice, is now crucial for Good Governance, improving resource efficiency, strengthening public accountability, and mitigating corruption. Although GCG has the potential to be transformative, its implementation faces unique bureaucratic complexities. This study uses a descriptive qualitative approach through an extensive literature review and regulatory analysis. We identify key internal factors: strong leadership commitment, adaptive organizational structure, effective internal control system, superior human resource quality, and optimal utilization of information/technology systems. External factors include a clear legal framework, the role of external oversight institutions, active community participation, and the influence of culture/social values. The results of this study are expected to provide an in-depth understanding of the challenges and opportunities for GCG adoption in the Indonesian public sector. It also presents practical implications for policymakers and practitioners in formulating adaptive and sustainable implementation strategies, for the sake of improving the quality of public services.

### **Keywords:**

Good Corporate Governance, Public Sector, Governance, Public Accountability

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## INTRODUCTION

The increasing demand for clean, transparent, and accountable governance has become an unavoidable global agenda, especially in developing countries like Indonesia. The crisis of public trust in government institutions, often triggered by rampant corruption practices, chronic bureaucratic inefficiency, and lack of responsiveness to community needs, has driven the urgency to adapt and implement the principles of Good Corporate Governance (GCG), a concept that initially developed rapidly in the private sector in response to various corporate scandals (OECD, 2004). GCG, as a comprehensive system designed to regulate and control entities in order to achieve their strategic objectives and create added value for all stakeholders, is now widely integrated into the public sector management paradigm, which is then known as Good Governance (World Bank, 1994).

In Indonesia, the spirit of implementing GCG in the public sector is manifested in a series of ambitious bureaucratic reform policies and initiatives, including the establishment of a government agency performance accountability system (SAKIP), as well as massive efforts to eradicate corruption led by institutions such as the Corruption Eradication Commission (KPK). The government explicitly recognizes that the implementation of GCG principles—namely transparency, accountability, responsibility, independence, and fairness—is a fundamental key to improving the quality of public services, optimizing the efficient use of the state budget, minimizing the practice of abuse of authority, and most importantly, rebuilding public trust in state institutions (KNKG, 2006).

However, the process of transition and implementation of GCG principles from a corporate environment dominated by profit orientation to a public sector oriented towards public service and welfare is not an unimpeded journey. The public sector has unique inherent characteristics, such as the complexity of a multi-layered bureaucracy, the existence of various competing political interests, and the multi-dimensional nature of objectives that are often difficult to measure financially alone (Mardiasmo, 2018). These factors are often a challenge in realizing good governance. Therefore, it is very important to carefully identify what key factors significantly influence the success or failure of GCG implementation in public sector organizations. A deep understanding of these factors will be an essential foundation for policy makers and practitioners in the public sector in designing GCG implementation strategies that are not only effective but also adaptive and sustainable, in order to achieve a more accountable and serving government.

## LITERATURE REVIEW

Discussion on the implementation of *Good Corporate Governance* (GCG) in the public sector requires an in-depth exploration of the concept of GCG itself, its adaptation in the context of government, and factors that have been empirically and theoretically proven to influence the adoption process.

### 1. Conceptualization of *Good Corporate Governance* (GCG)

The concept of *Good Corporate Governance* (GCG) first became widely known as a response to a series of major corporate scandals in the late 20th century that highlighted substantial weaknesses in corporate oversight and accountability mechanisms. The Cadbury Committee (1992) in the UK was one of the pioneers in formulating GCG principles as a comprehensive system in which companies are directed and controlled. In general, GCG is based on five basic principles known by the acronym TARIF:

- a). **Transparency** : This principle requires openness in the implementation of the decision-making process, timely and accurate disclosure of relevant and material information to all stakeholders. Transparency is key to building trust and reducing information asymmetry (FCGI, 2006).

- b). Accountability : *Accountability* refers to the clarity of function, implementation, and accountability of organizational organs so that management can be carried out effectively and efficiently. This requires a credible reporting system and clear accountability mechanisms for performance and use of resources (Mardiasmo, 2018).
- c). Responsibility : This principle emphasizes the organization's compliance with applicable laws and regulations, as well as a commitment to ethical values and social responsibility. It also includes concern for the environmental and social impacts of the organization's operations (KNKG, 2006).
- d). Independence : *The principle of independence* emphasizes that the management of the organization must be carried out professionally, free from conflicts of interest, and without undue influence or pressure from any party. This is essential to ensure objectivity in decision making (OECD, 2004).
- e). Fairness : This principle demands fair and equal treatment of all stakeholders, in accordance with their legitimate rights under applicable laws and agreements. This aims to prevent discrimination and abuse of power (FCGI, 2006).

## 2. GCG in the Context of the Public Sector (*Good Governance* )

The adaptation of GCG principles to the public sector is widely known as *Good Governance*. The World Bank (1994) defines *Good Governance* as the way in which the government uses economic, political, and administrative power to manage state affairs at all levels. This concept emphasizes participatory, transparent, accountable, effective, and fair governance. UNDP (1997) expands the scope of *Good Governance* by adding the dimensions of the rule of law, equality, efficiency, responsiveness, and consensus orientation.

The fundamental difference between GCG in the private sector and the public sector lies in its objectives and focus. The private sector is primarily oriented towards creating value for shareholders and profitability, while the public sector is oriented towards providing quality public services and achieving public welfare (Kurniawan, 2009). Nevertheless, the basic principles of GCG such as transparency, accountability, and responsibility remain relevant and crucial in both sectors to prevent abuse of power and resources.

## 3. The Role of Public Sector Accounting in Supporting GCG

Public sector accounting plays a vital role as a supporting instrument in the implementation of GCG. A strong and credible accounting system provides relevant financial and non-financial information for performance measurement, accountability reporting, and appropriate and effective decision making (Mardiasmo, 2018). Some key aspects of public sector accounting that directly support GCG principles include:

- a). Transparent Financial Reporting: Presentation of financial reports in accordance with Government Accounting Standards (SAP) allows stakeholders to closely monitor the use of public funds, increasing transparency in state financial management.
- b). Independent Audit: The audit process conducted by an independent institution such as the Audit Board of Indonesia (BPK) provides adequate assurance of the reliability of financial information and compliance with regulations, which are crucial elements of accountability and transparency (Indra, 2017).
- c). Effective Internal Control Systems: The design and implementation of a strong internal control system (e.g., referring to the COSO framework) helps prevent *fraud* , errors, and inefficiencies, and ensures the integrity of financial and operational information (COSO, 2013).
- d). Performance Accounting: In addition to financial accounting, public sector accounting is also rapidly developing towards performance accounting, which measures the efficiency and

effectiveness of government programs and activities. This provides a strong basis for assessing the responsibility and accountability for achieving social and economic goals (Mardiasmo, 2018).

#### 4. Factors Influencing GCG Implementation

Various studies and literature have identified various factors that significantly influence the implementation of GCG, both in the private and public sectors. These factors can generally be categorized into internal factors originating from within the organization, and external factors originating from the organization's external environment.

##### Internal Factors:

- a). *Leadership Commitment* : Full support, strong role models, and unwavering commitment from the organization's top leadership are crucial in driving organizational cultural change towards GCG. Visionary and integrity leaders are the main catalysts for reform and implementation of GCG policies (Dwiyanto, 2010; Kurniawan, 2009).
- b). *Organizational Structure Design and Governance*: Clarity of organizational structure, proportional division of tasks and authority, and the function of each unit in the organization that supports GCG are very important. The establishment of an internal audit committee, compliance unit, or independent *whistleblowing mechanism* is a manifestation of the principles of accountability and independence (Mardiasmo, 2018).
- c). *Effectiveness of Internal Control System*: Having an adequate and effective internal control system is key to preventing and detecting irregularities and ensuring compliance with procedures and regulations (COSO, 2013). Weaknesses in this system can open the door to corrupt practices and abuse of authority.
- d). *Human Resources (HR) Quality*: Competence, integrity, and deep understanding of HR on GCG principles are the determining factors for success. Continuous training, capacity building, and strict enforcement of the code of ethics are important investments in building quality HR (Wibowo, 2016). An organizational culture that supports integrity and anti-corruption is also very influential.
- e). *Utilization of Information Systems and Technology*: Availability and utilization of sophisticated information technology for transparency, operational efficiency, and accountable reporting are vital. Integrated information systems (e.g. *e-budgeting*, *e-procurement* ) can reduce direct interactions that have the potential for collusion (Halim & Abdullah, 2008).

##### External Factors:

- a). *Regulatory Framework* : The existence of clear, comprehensive, and consistently enforced laws, government regulations, and policies is a solid foundation for GCG implementation. Weak law enforcement or overlapping regulations can be serious obstacles (World Bank, 1994).
- b). *The Role and Effectiveness of External Supervisory Institutions*: External audit institutions (e.g. BPK), anti-corruption institutions (KPK), Ombudsman, and legislative institutions (DPR/DPRD) have crucial roles in conducting supervision, investigation, and law enforcement to ensure compliance with GCG principles (Indra, 2017). The independence and capacity of these institutions greatly influence the success of GCG.
- c). *Public Participation and Public Pressure*: High awareness and active participation of the public, civil society organizations, and the mass media in monitoring the performance of the public sector can be a strong driver of GCG implementation. Public demands for transparency and accountability can force government institutions to improve their governance (Dwiyanto, 2010).

**Influence of Culture and Social Values:** Cultural values prevailing in a society, such as integrity, honesty, and tolerance for corruption, can influence the level of acceptance and success of GCG principles implementation. In addition, pressure from the international community, such as development aid requirements or membership standards in international organizations, can also encourage countries to adopt GCG practices.

## METHOD

This study adopts a qualitative approach with a descriptive-analytical method to provide an in-depth and comprehensive understanding of the factors that influence the implementation of Good Corporate Governance (GCG) in public sector organizations in Indonesia. A qualitative approach was chosen because it allows exploration of the complexity of interactions between various factors, as well as an understanding of the unique context of the Indonesian public sector. The descriptive-analytical method is used to present a systematic, factual, and interpretive description, based on a critical synthesis of various leading academic literature, regulations, and best practices (Sugiyono, 2018).

The data used in this study are entirely secondary data, collected through extensive and comprehensive literature review. Data sources include fundamental textbooks on Good Corporate Governance, public sector accounting, public management, organizational theory, and governance, both from national and international authors. In addition, scientific journal articles from reputable national and international databases (such as ScienceDirect, Google Scholar, Emerald Insight, JSTOR, SINTA, Garuda) that explicitly discuss the implementation of GCG in the public sector, the determinants of success, and the challenges faced, will be the main sources. Research reports, Working Papers, and Policy Briefs published by leading institutions such as the World Bank, United Nations Development Programme (UNDP), Organization for Economic Co-operation and Development (OECD), National Committee on Governance Policy (KNKG), Audit Board of Indonesia (BPK), and domestic research institutions will also be reviewed. It is also important to include relevant Indonesian government laws and policies on governance, accountability, transparency, and anti-corruption (e.g. Law on Public Information Disclosure, Law on Public Services, Government Regulation on Government Agency Performance Accountability System). Finally, relevant conference publications, theses, and dissertations, particularly those focusing on the dynamics of GCG in the Indonesian public sector, will also be considered.

Data collection techniques will be conducted through documentation and directed literature review. Documentation study involves searching and reviewing relevant formal and informal documents, such as annual reports of government institutions, performance accountability reports, BPK audit report results, and policy materials related to GCG or bureaucratic reform. The directed literature review will be conducted through systematic searches using a combination of relevant and specific keywords (e.g., "Good Corporate Governance public sector", "Good Governance factors", "public accountability", "government transparency", "public sector corruption", "bureaucratic reform"). Articles and documents found will go through an initial selection process based on the title and abstract, followed by full-text reading to ensure their relevance and quality. The main focus is to identify findings, arguments, and conceptual frameworks that explicitly discuss the factors influencing GCG implementation in the public sector.

The collected data will be analyzed using an iterative descriptive-qualitative analysis approach. The first stage is data reduction, where the researcher will carefully read, annotate, and identify key themes, core concepts, supporting theories, and main arguments that are directly related to internal and external factors that influence GCG. The second stage is data presentation, where the reduced data will be organized into logical thematic categories. The

main categories will be divided into "Internal Factors" and "External Factors", with more specific sub-categories such as leadership commitment, legal framework, etc. Explanations will be presented in detail in the form of a coherent paragraph narrative, supported by citations from relevant literature. The final stage is verification and conclusion drawing, where the researcher will interpret and make sense of the data that has been presented to identify patterns, causal relationships, and trends that emerge from various literatures. In-depth analysis will be conducted to explain why certain factors are more dominant in the public sector and how their interactions shape GCG implementation. Conclusions will be drawn synthetically, comprehensively answering the research questions, and identifying existing research gaps for future studies.

## RESULTS AND DISCUSSION

The implementation of *Good Corporate Governance* (GCG) in public sector organizations in Indonesia is a dynamic and transformative process, but also full of complex challenges. The successful adoption and institutionalization of GCG principles depends heavily on the synergistic interaction between a series of internal factors originating from within the organization, and external factors originating from the organization's external environment.

### 1. Internal Factors Influencing GCG Implementation

Internal factors refer to elements that are within the direct control or scope of a public sector organization. These elements are often early indicators of an organization's readiness and commitment to implement GCG effectively.

One of the most fundamental internal factors is leadership commitment. Without full support, strong role models, and unwavering commitment from the highest leaders of public institutions (for example, regional heads, ministers, or directors general), efforts to change organizational culture towards better governance will be very difficult to realize (Kurniawan, 2009; Dwiyanto, 2010). Visionary leaders with high integrity act as the main catalyst and driver for all GCG initiatives. The success of bureaucratic reform in several ministries or local governments can often be traced back to the existence of leaders with strong integrity and vision who are able to drive change from the top (*top-down approach*).

Furthermore, the design of an effective organizational structure and governance also plays a crucial role. A structure designed to support GCG is characterized by clarity of authority and responsibility of each unit, adequate separation of functions (especially between implementing and supervisory functions), and transparent and accountable decision-making mechanisms (Mardiasmo, 2018). The establishment of specific units such as internal audit committees, compliance units, or the implementation of an independent *whistleblowing system* are concrete manifestations of efforts to formalize GCG principles. Conversely, a structure that is too hierarchical and bureaucratic without adequate *checks and balances* can hinder the flow of information, trigger collusion, and complicate the enforcement of accountability.

The effectiveness of the internal control system is the backbone of accountability and integrity in any organization. Referring to the COSO framework (2013), a strong internal control system includes a positive control environment, a thorough risk assessment process, relevant control activities, effective information and communication systems, and ongoing monitoring. An effective internal control system is essential to prevent and detect irregularities, fraud, and inefficiencies in the management of public resources. Weaknesses or failures in this system are often the root of the problem in various cases of corruption and abuse of authority in the public sector, because they directly open up loopholes for illegal practices.

In addition, the quality of human resources (HR) is a key determinant for the success of GCG implementation. Competent, professional, and highly integrity employees are invaluable assets. The level of employee understanding of GCG principles, professional ethics, and their ability to implement GCG-related policies and procedures are very important. Investment in ongoing training programs, capacity building, and strict enforcement of codes of ethics and meritocratic recruitment and promotion systems will significantly strengthen HR quality (Wibowo, 2016). An organizational culture that intrinsically encourages ethical behavior, professionalism, and appreciation for GCG-based performance is also very influential.

Finally, optimal utilization of information systems and technology is a key enabler for transparency and efficiency in the public sector. The implementation of integrated information systems, such as *e-budgeting*, *e-procurement*, *e-planning*, or *e-government service systems*, can significantly minimize physical contact between officials and the public, reduce opportunities for corruption, and speed up the process of service delivery and financial reporting. The availability of easily accessible data and the ability to perform sophisticated data analysis also greatly support more evidence-based and accountable decision-making (Halim & Abdullah, 2008). However, limitations in IT infrastructure, lack of competent human resources in the IT field, or resistance to the adoption of new technologies can hinder this optimal utilization.

## 2. External Factors Influencing GCG Implementation

In addition to internal factors, the success of GCG implementation is also greatly influenced by elements of the organization's external environment that may be beyond direct control, but have a significant impact.

First, a clear, comprehensive, and consistently enforced legal and regulatory framework is a solid foundation for GCG implementation. The existence of laws, government regulations, and policies that explicitly regulate good governance, accountability, transparency, and the eradication of corruption are essential (World Bank, 1994). Unclear regulations, overlapping regulations, or weaknesses in law enforcement can be serious obstacles to efforts to improve governance. An example is the Law on Public Information Disclosure (KIP) in Indonesia, which directly supports the principles of transparency and accountability.

Second, the role and effectiveness of external supervisory institutions have a crucial impact. Institutions such as the Audit Board of Indonesia (BPK), the Corruption Eradication Commission (KPK), the Ombudsman of the Republic of Indonesia, and legislative institutions (DPR/DPRD) through their supervisory functions, have a central role in conducting supervision, investigation, and law enforcement to ensure compliance of public sector organizations with GCG principles (Indra, 2017). The independence, capacity, and courage of these institutions in carrying out their duties of supervision, investigation, and enforcement greatly affect how far GCG can be enforced. Political intervention in supervisory institutions can seriously undermine their role in creating clean governance.

Third, active community participation and public pressure are important catalysts for GCG implementation. High awareness and active participation of the community, civil society organizations, and the mass media in monitoring the performance of the public sector can be a strong driver. Public demands for better services, transparent budget management, and clean governance can force public institutions to improve their governance (Dwiyanto, 2010). Effective public complaint mechanisms, public consultation forums, and press freedom are important channels for this participation.

Finally, the influence of culture and social values prevailing in society can also affect the level of acceptance and success of GCG implementation. A culture that upholds integrity, honesty, discipline, and professional work ethic will be more conducive to GCG implementation compared to a culture that tends to be permissive towards KKN (Corruption, Collusion,

Nepotism) practices or tolerant of abuse of authority (Hofstede, 2001 in Robbins & Judge, 2017). Anti-corruption education programs and instilling moral values from an early age can shape a generation that cares more about good governance. In addition, pressure from the international community, such as development aid requirements or membership standards in international organizations, can also be significant external drivers.

The interactions between these factors are dynamic and complex. For example, strong leadership commitment (internal) can encourage improvements in the legal framework (external), which in turn can strengthen the role of external supervisory institutions, and then pressure the internal organization to improve the internal control system. Conversely, weaknesses in one of the factors can significantly hinder the implementation of GCG as a whole. Understanding these multi-directional interactions is crucial to formulating a holistic and sustainable GCG implementation strategy.

## CONCLUSION

Based on a comprehensive analysis of various literatures, it can be concluded that the implementation of *Good Corporate Governance* (GCG) in public sector organizations in Indonesia is a complex effort influenced by dynamic interactions between various internal and external factors. Success in realizing good governance is highly dependent on how these factors are managed and synergized effectively.

Internal factors that have proven essential include strong commitment from top leadership, adaptive and accountable organizational structure design, effectiveness of internal control systems, quality of human resources with integrity and competence, and optimal utilization of information systems and technology. These factors collectively form internal capabilities and organizational culture that are oriented towards accountability, transparency, and efficiency.

On the other hand, external factors also play an equally important role. The existence of a clear and consistently enforced legal and regulatory framework, the active role and independence of external supervisory institutions, active community participation and constructive public pressure, as well as the positive influence of culture and social values, all contribute to creating an external environment that supports and oversees the implementation of GCG.

To realize effective and sustainable GCG implementation in the Indonesian public sector, a holistic and coordinated approach involving various parties is needed. Strategic recommendations include:

1. Strengthening Political Commitment and Leadership: Ensuring strong political will and unwavering commitment from the highest leadership at all levels of government to internalize and consistently implement GCG principles.
2. Improvement of the Legal and Regulatory Framework: Develop and enforce more comprehensive, clear and non-overlapping laws and regulations, which explicitly support transparency, accountability, anti-corruption and public participation.
3. Improving Organizational and Human Resource Capacity: Developing a more effective internal control system, improving employee competence and integrity through continuous training, and optimally utilizing information technology to support governance processes.
4. Empowerment of External Supervisors and the Community: Supporting the independence and effectiveness of supervisory institutions (BPK, KPK, Ombudsman) and opening up wider participation space for the community in supervising and providing input on the performance of the public sector.



5. Organizational Culture Transformation: Encourage changes in mindset and work culture throughout the bureaucracy to be more oriented towards integrity, professionalism, and excellent public service, and reject practices that are not in accordance with GCG principles.

By deeply understanding and managing the complex interactions between these factors, Indonesia's public sector can progressively achieve better levels of governance, which will ultimately lead to improved quality of public services, efficient use of state resources, and restoration and strengthening of public trust in the government.

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