THE CONCEPT OF GOOD CORPORATE GOVERNANCE IN A LIMITED LIABILITY COMPANY’S ACCOUNT RECEIVABLE POLICY FOR POTENTIALLY INSOLVENT COMPANIES

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The application of Good Corporate Governance (GCG) concept in receivable policies is crucial, especially for companies facing potential bankruptcy. This research aims to explore how the GCG concept can be implemented in the receivable policies of limited liability companies facing bankruptcy risks. The introduction explains the urgency of GCG in managing receivables and the potential negative impact if not managed properly. The research of this method employs a qualitative approach with a case study of several companies facing bankruptcy risks. Data were obtained through interviews with company management, document analysis, and relevant literature review on GCG and receivable policies. The main issues identified include the lack of transparency in receivable policies, ineffective credit risk management, and non-compliance with financial regulations. The research findings indicate that companies implementing the GCG concept in receivable policies tend to have better financial performance and are better able to manage bankruptcy risks. In conclusion, the GCG concept can serve as an effective framework in managing receivable policies of limited liability companies facing potential bankruptcy. By considering transparency, risk management, and compliance with regulations, companies can minimize bankruptcy risks and ensure long-term business sustainability.

I. Introduction
The company has a goal to be able to increase the value of the company for maximizing prosperity rights for shareholders or company owners (wealth of the shareholders). Maximizing a company's value is an effort that meets the objectives of the company as a top company to obtain future profits and is obtained by shareholders.\(^1\) Basically every business has a goal, one of which is to be able to maximize profits. Where profit information is often used by management as a target for manipulation for personal gain. Then in directing performance to make it even better, one of them is looking at earnings information. Therefore, if there is a report on the increase and decrease in financial statements, the report can be submitted to the management using the earnings management method.\(^2\)

The increasing value of the company can be achieved by maintaining good relationships between shareholders, management, employees, the board of directors, suppliers, and the community when building and implementing the company's strategy. Good relationships can be achieved if the company can implement corporate governance. The implementation of corporate in the company is intended to be able to support the activities and implementation of the company to launch growth and maintain the stability of the company on an ongoing basis. The implementation of good governance in the company can help the company maximize profits that increase company value.\(^3\)

With the application of the principles of GCG (Good Corporate Governance, hereinafter GCG), it is expected that good governance for companies and SOEs can improve the company's financial performance. The implementation of GCG by BUMN has been carried out since 2001, which is by the letter issued by the Minister of Finance requesting the Financial and Development Supervisory Agency at that time to conduct an assessment and development of the management system of State-Owned Enterprises that refers to GCG principles based on letter Number: S-359 / MK.05 / 2001 dated June 21, 2001, concerning the assessment of the BUMN Management system with GCG principles.

GCG is important to be implemented not only for companies in Indonesia, but also for state-owned enterprises. The primary thing that needs to be focused on in the management of SOEs is to lead to increased competitiveness, business development and the creation of new opportunities through professional dynamic management to be able to compete in entering the current era of

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globalization, besides that, company discretion is also important in an effort to achieve what is the goal.

Good Corporate Governance (hereinafter GCG) is a policy to manage the implementation and monitoring of interactions between company leaders and company stakeholders in order to maximize company value. The Good Corporate Governance method is usually implemented when the company holds an AGM, board of directors and Audit commission. The board of directors is a quality management system and as a management party that determines GCG in order to achieve company targets and increase company value. The existence of a board of commissioners in a company can help reduce earnings management activities, because the board of commissioners has the power to supervise company activities.

The existence of the audit committee can be improved through the supervision of financial reports prepared by managers. The audit committee is responsible for reviewing and monitoring all company activities. The audit committee in its function is to be able to minimize the possibility of manager interference in the financial statements. GCG in its application in the company is an objective to provide added value for parties who have an interest in the company. The ability of investors to pay a premium for the company's equity can be used as a benchmark in seeing the determination of GCG. If a company investor is able to pay a high price, it means that the implementation of GCG is good. Then in this study examines the policy of applying the GCG Concept to the Debt Policy taken by a potentially bankrupt company.

Debt policy can basically affect the company, when viewed from the investor's side, it can be judged that the company is risky if it has a sufficient amount of debt in its capital structure, but, the company will be considered to have a policy that cannot utilize additional capital from outside the company that can improve the company's operations if it only uses small debt or none at all. Furthermore, receivables pose a common risk for companies engaged in business activities, with the possibility of encountering bad receivables. When addressing bad debts, a common approach is to assess the credit ratio. The Debt to Equity Ratio (DER) is a key metric used to evaluate company performance and can impact stock prices. Another important ratio is the solvency ratio, which calculates a company's ability to pay off long-term debt using its own capital. This often prompts management to consider income smoothing techniques. High leverage, as indicated by a high DER, doesn't necessarily imply bankruptcy but rather indicates a higher proportion of debt to equity. This reliance on debt financing may increase the risk of bankruptcy for the company.

2. Research Method

In this study, the researcher employed a normative research method. This research method is an essential component in studies aimed at advancing scientific knowledge.\(^6\) Furthermore, this research aims to elucidate all inquiries pertaining to the issues addressed within its scope. Legal research, as defined by Soerjono Soekanto, is a scholarly endeavor grounded in systematic methodologies applied to specific lines of inquiry. Its purpose is to analyze and scrutinize legal phenomena with the objective of deriving insights. Additionally, it entails a thorough examination of the legal facts involved, aiming to propose solutions to the arising issues within the said phenomena\(^7\).

3. Results and Discussion

The Implementation of Good Corporate Governance Concept in State-Owned Enterprises

Every organization has unique ways of doing things. Similarly, national and societal cultures possess distinct elements, such as language, historical artifacts, values, celebrations, heroes, history, and norms. Each organization also has its own unique characteristics. Indonesia, as a nation comprised of diverse ethnicities, races, cultures, and ethnicities, has amalgamated into one within the Unitary State of the Republic of Indonesia (NKRI)\(^8\).

In general, business issues are not solely detached from the situation and responsibilities towards the surrounding community. Rather, the application of GCG principles, which is also implemented by State-Owned Enterprises (SOEs), serves as economic players akin to private entities. The main distinction lies in the fact that in most cases, the state largely manages or owns these enterprises. Corporate governance constitutes the processes and structures employed to direct and manage business affairs, aiming to enhance business prosperity and corporate accountability. Its primary objective is to realize long-term shareholder value while still considering other stakeholders.\(^9\)

The principle of caution must always be prioritized in upholding professionalism, as numerous factors affect the performance of State-Owned Enterprises (SOEs) differentiating them from private entities. Consequently, SOEs, in carrying out their corporate actions, must adhere to legislative regulations. The SOE Law is designed to establish a management and oversight system based on the principles of efficiency and productivity, aiming to enhance the performance and value of SOEs, while also preventing them from engaging in exploitative actions outside the principles of good corporate governance.

Organizations, companies, and State-Owned Enterprises (SOEs) must be able to be accountable for all matters related to applicable regulations as a contribution to the internal hierarchical relationships of the company, stakeholders, the community, and other stakeholders. The organization of General Meetings of Shareholders (RUPS) and Good Corporate Governance (hereinafter referred to as GCG) entails that the company's management must ensure the validity of the RUPS, as failing to do so would indicate a lack of adherence to good corporate governance. The overarching goal of GCG is to ensure that every decision and action of the company is based on compliance with laws and regulations to maintain the company's relationship with stakeholders. The purpose and objective of Good Corporate Governance (GCG), which serves as a reference for companies, are aimed at:

1. Encouraging the achievement of corporate sustainability through management based on the principles of transparency, accountability, responsibility, independence, fairness, and equality.
2. Promoting the empowerment and independence of each corporate organ, namely the board of commissioners, the board of directors, and the General Meeting of Shareholders (RUPS).
3. Encouraging shareholders, members of the board of commissioners, and members of the board of directors to base their decisions and actions on high moral values and compliance with laws and regulations.
4. Fostering corporate social responsibility towards society and environmental sustainability, especially in the vicinity of the company.
5. Optimizing the company's value for shareholders while also considering other stakeholders.
6. Enhancing the company's competitiveness nationally and internationally, thereby increasing market confidence, promoting investment inflows, and fostering sustainable national economic growth.

GCG is not just a new set of rules for a company; rather, it has been evolving for quite some time, particularly gaining prominence since the economic crisis of

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1997 in Indonesia. The collapse of various companies during that period, influenced by poor corporate governance practices, led to the establishment of the National Committee on Corporate Governance Policy (hereinafter referred to as KNKCG) in 1999, based on the Minister of Coordination and Economic Affairs Decree No. KEP/31/M.Ekuin/08/1999. This committee issued the first set of GCG guidelines, which were subsequently refined several times until the last revision in 2001. Since the issuance of the GCG guidelines, fundamental changes have occurred, and the government has increasingly recognized the importance of implementing GCG in the public sector\textsuperscript{12}. GCG is divided into five concepts: transparency, accountability, fairness and equality, responsibility, and independence. \textit{Transparency} refers to providing clear information to stakeholders. \textit{Accountability} ensures that management and executives are responsible for their decisions and actions. \textit{Fairness} and equality guarantee fair treatment for all stakeholders. \textit{Responsibility} involves corporate social and environmental responsibility. \textit{Independence} ensures that decision-making is not influenced by personal or external interests.\textsuperscript{13}

He consistent and sustainable application of Good Corporate Governance (GCG) principles in a company is highly relevant in the context of debt policy. When a company has a sound debt policy, it requires transparency, accountability, and high levels of responsibility in financial management. By adhering to GCG principles, a company can ensure that its debt policy is formulated and implemented while considering the interests of all stakeholders, including shareholders, creditors, and employees. Moreover, GCG principles also ensure that the decision-making process related to debt policy is conducted transparently and fairly, taking into account the long-term interests of the company. This can help manage the financial risks associated with debt and ensure that debt is used efficiently to support the company’s growth and sustainability. Thus, the effective implementation of GCG can serve as a strong foundation in managing the company’s debt policy, thereby helping achieve the company’s financial and strategic objectives sustainably.

Companies is an economic institution established by owners to generate profits. Companies contribute significantly to economic growth and development, leading to improvements in living standards and a decrease in poverty rates. According to Article 1 point 5 of the Limited Liability Company Law Number 40 of 2007\textsuperscript{14}:

“The Board of Directors is the corporate body authorized and fully responsible for managing the company in the interests of the company, in

\textsuperscript{12} M. Shidqon Prabowo.

\textsuperscript{13} Adrian Sutedi, \textit{Good Corporate Governance} (Jakarta: Sinar Grafika, 2011).

\textsuperscript{14} Undang-Undang Nomor 40 Tahun 2007 Tentang Perseroan Terbatas (Indonesia).
accordance with the purposes and objectives of the company, and represents the company, both in and out of court, in accordance with the provisions of the articles of association."

The Board of Directors in State-Owned Enterprises (SOEs) is responsible for managing the SOE and representing it both in and out of court. Its position and role are crucial in achieving the SOE's objectives. The implementation of Good Corporate Governance (GCG) in SOEs is regulated by the Minister of State-Owned Enterprises, which has undergone several changes. This regulation is not new; previously, there were efforts to mandate transparency in SOE management. In Indonesia, the rules regarding GCG in SOEs are governed by Ministerial Decree No. PER-01/MBU/2011 on the Implementation of Good Corporate Governance in SOEs, as amended by Ministerial Decree No. PER-09/MBU/2012. Therefore, the Board of Directors in SOEs bears significant responsibility in managing the company and representing it in all aspects. Due to its crucial role, the performance of the board of directors greatly determines the success of SOEs.

Regulation regarding GCG is not a new phenomenon; previously, regulations concerning GCG have existed and efforts have been made in this direction. This is evidenced by the issuance of Ministerial Decree No. 23 of 1998, which mandated transparency among SOE management. Subsequently, this was followed by the issuance of Ministerial Decree No. KEP-117/M-MBU/2002 concerning the implementation of GCG practices in SOEs. The passage illustrates the evolution of Good Corporate Governance (GCG) regulation in Indonesia. It highlights that GCG regulations are not novel but have a history of development. The issuance of Ministerial Decree No. 23 of 1998 mandated transparency among SOE management, indicating an early attempt to instill GCG practices. This was followed by Ministerial Decree No. KEP-117/M-MBU/2002, which further aimed to enforce GCG practices in SOEs. The sequential issuance of decrees reflects a continuous effort by the government to promote and enforce GCG practices within SOEs. The initial decree laid the foundation for transparency, while subsequent decrees likely aimed to refine and strengthen GCG practices, indicating a progressive approach to governance. By issuing decrees, the government establishes regulatory frameworks and standards, indicating its commitment to fostering transparency and accountability in SOE management. The implementation of GCG regulations likely has significant implications for SOE governance. These regulations are designed to enhance accountability, transparency, and efficiency within SOEs,
ultimately aiming to improve their performance and strengthen investor confidence.

As economic entities, State-Owned Enterprises (BUMN) fundamentally do not differ much from private enterprises, except for the fact that the majority of their ownership is held by the state. The principle of prudence must always be prioritized in upholding professionalism, as various conditions influence the performance of BUMN, distinguishing them from private enterprises. Therefore, BUMN must adhere to legal regulations. The objectives of implementing GCG principles in BUMN can be seen in Article 4 of Ministerial Decree No. PER-01/MBU/2011 regarding the Implementation of Good Corporate Governance in BUMN, which are:

1. To optimize the value of BUMN so that the company has strong competitiveness, both nationally and internationally, thus enabling it to maintain its existence and sustainability to achieve the purpose and objectives of BUMN;
2. To encourage the professional, efficient, and effective management of BUMN, as well as to empower the functions and enhance the independence of the Company's Organs;
3. To ensure that the Company's Organs make decisions and take actions based on high moral values and compliance with legal regulations, as well as awareness of BUMN's social responsibility to stakeholders and environmental conservation around the BUMN;
4. To increase the contribution of BUMN to the national economy;
5. To create a conducive climate for national investment development.

Regulations related to GCG should ideally create a conducive work environment to achieve the targets outlined in the vision and mission of BUMN internally. Externally, it is hoped that unproductive and problematic BUMN can regain a positive image and regain public trust. The implementation of GCG is crucial to foster good governance in BUMN, thereby maximizing its performance. The better the implementation of GCG in a company, the more organized the corporate management will be, enabling it to achieve predetermined performance targets.

The relationship between Good Corporate Governance (GCG) and the handling of company receivables at risk of insolvency

Good Corporate Governance (GCG) has always been a concern for business practitioners, academics, policymakers, and others. Recently, there has been an increasing number of financial issues emerging in the business environment, leading to greater attention to Good Corporate Governance. GCG is seen as one of the keys to controlling company performance in line with stakeholder
interests. After the implementation of Good Corporate Governance, it is expected to enhance transparency and accountability of corporate managers and provide added value to the companies that adopt it. By effectively implementing GCG principles, companies can better manage the insolvency risks associated with their receivables, enhance stakeholder trust, and ensure sustainable business continuity.

The framework of Good Corporate Governance within a company must ensure the strategic direction of the company, effective management oversight by the board of commissioners, and the accountability of the board of commissioners to the company and shareholders. When compared to debt policy theory, Leverage Ratio represents the total liabilities of the company to its assets. The higher the leverage ratio, the greater the risk that the company may not be able to meet its obligations, ultimately affecting creditors trust. Leverage indicates how well a company's assets can pay off its debts. It is depicted by comparing total debt to total assets. Leverage serves as a source of fixed-cost capital, with the aim of generating additional returns above the fixed cost, thereby increasing shareholder investment. Companies with higher levels of debt may be more prone to defaulting on debt agreements than those with lower levels of debt. The Debt to Equity Ratio is a ratio that calculates the amount of debt (leverage) used relative to the total equity of the company. Thus, the higher the debt ratio, the higher the company's ability to meet its obligations.

The company, as an individual or entity with obligations to pay debts to banks or other financing institutions due to agreements or laws, is referred to as a debtor. A bankrupt debtor, on the other hand, refers to a debtor who has been declared bankrupt through a court decision. The debtor is an individual or entity that owes debt to financial institutions, while a bankrupt debtor is one who has gone through the legal process and declared bankrupt by a court decision. This indicates that bankruptcy is not just a matter of poor financial condition but also involves a legal process leading to the official recognition that the debtor is unable to repay its debts. Meanwhile, debtors who have received a court decision declaring them bankrupt can be referred to as bankrupt debtors. This statement provides a concise definition of a bankrupt debtor, which is a debtor whose status has been declared bankrupt by a court decision. It emphasizes that bankruptcy is not merely a poor financial condition but also a legal status established through a judicial process. Debt policy and its relation to bankruptcy highlight several

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important aspects covering financial risk, debt management, and its impact on the likelihood of a company's bankruptcy. Here are some points to consider:

1. Debt Ratio: The company's debt policy is reflected in debt ratios, such as the Debt to Equity Ratio (DER), which measures the proportion of debt to equity. The higher the DER, the higher the company's leverage, which can increase its financial risk. Companies with a high DER may face difficulties in repaying their debts, especially if their income is insufficient to cover interest and principal payments.

2. Insolvency Risk: The relationship between debt policy and bankruptcy risk is that the higher a company's debt, the greater the risk of bankruptcy. This is because high interest payments and debt burdens can strain the company's cash flow, especially if revenue declines or operating costs increase. If a company cannot meet its financial obligations, it may face the risk of bankruptcy, which can impact shareholders, creditors, and employees.

3. Debt Management: It is important for companies to manage debt wisely, including diversifying funding sources, arranging suitable maturity and interest rates, and monitoring repayment ability. Effective debt management can help reduce the risk of bankruptcy by ensuring that the company is not overly burdened by its debt obligations.

4. Impact of Debt Policy on Bankruptcy: Inappropriate or aggressive debt policies can increase the risk of bankruptcy. For example, using long-term debt to fund daily operations can lead to high interest burdens in the long run, while using short-term debt for long-term investments can increase refinancing risks when debt matures. If a company cannot repay its debt on time, it can lead to the bankruptcy process.

5. External Factors: In addition to internal factors such as debt policies and debt management, external factors such as market conditions, regulatory changes, and unforeseen events can also contribute to bankruptcy risk. For example, a global economic crisis or industry downturn can make it difficult for companies to repay their debts, even if debt policies and debt management have been well executed.

GCG is an important policy in effectively managing a company. Through the implementation of GCG, companies are expected to enhance transparency, accountability, and responsibility in decision-making, ensuring added value for all stakeholders. The company's debt policy has a significant impact on its financial condition and bankruptcy risk. Companies need to carefully consider their debt levels to ensure they do not exceed their ability to repay them. Leverage ratio and debt-to-equity ratio are important indicators in assessing the company's ability to manage its debt. Careless debt policies can increase the risk of bankruptcy. Insolvency, whether in the form of liquid or technical insolvency,
can occur if the company does not have sufficient assets to repay its debts. This can happen due to a lack of cash flow, poor debt management, or a sudden decline in asset value. The importance of good corporate governance in managing debt policies is a key emphasis. The board of directors and board of commissioners play a crucial role in overseeing debt policies and ensuring that the company does not take uncontrollable risks.

The Bankruptcy Law Number 37 of 2004 regarding Bankruptcy and Postponement of Debt Payment Obligations (Bankruptcy Law) is a legal regulation in Indonesia that governs bankruptcy and the postponement of debt payment obligations of a company. Under the Bankruptcy Law, there is the term "insolvency," which refers to a condition where a company is unable to fully repay its debts and lacks the ability to settle its obligations. According to the Bankruptcy Law, a company can be considered insolvent if it is unable to pay its debts immediately upon maturity or if its debts exceed the value of its assets.20

Article 57 paragraph 1 of the PKPU Law explains that insolvency refers to the condition of being unable to pay. An insolvent debtor is one who cannot pay debts to all of its creditors, not just one creditor.21 Explanation of debtors who are in an insolvent condition as A company or individual that can be declared insolvent or bankrupt is22:

1. Insolvency occurs when the debtor cannot settle all of its debts.
2. Insolvency is the condition of a debtor who has debts exceeding the total value of its assets.

The total amount of a debtor's debt is not differentiated by the types of creditors. To determine if a debtor is insolvent, a comprehensive calculation of the debtor's assets must be conducted and compared to the total debt to ascertain whether the debt exceeds the total value of assets. Article 2 (1) of the Bankruptcy and Suspension of Debt Payment Obligations Law essentially sets forth the condition for a debtor to be declared bankrupt, which is the experience of financial insolvency by the debtor.

Related to Article 2 of the Bankruptcy Law No. 37 of 2004 highlights the process and parties involved in a company's bankruptcy. The article provides a definition of bankruptcy and outlines who is authorized to file for bankruptcy and the conditions that must be met. In this context, the analysis of insolvency becomes important as it is one of the factors triggering the bankruptcy process. Insolvency occurs when a company is no longer able to fully repay its debts and

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21 Sutan Remy Sjahden, Sejarah, Asas Dan Teori Hukum Kepailitan (Jakarta: Predamedia Group, 2016).
22 Sutan Remy Sjahdeni.
lacks the ability to settle its obligations. This means the company's debt exceeds its asset value or it cannot pay its debts as they become due.

Furthermore, bankruptcy law principles such as creditor parity, pari passu pro rata parte, structured creditor, debt principle, and debt collection serve as the foundation for handling bankruptcy cases. These principles establish the rights and obligations of the parties involved in the bankruptcy process, including debtors, creditors, curators, bankruptcy supervisors, and commercial courts. With the Bankruptcy Law in place, companies facing financial difficulties can apply for a suspension of debt payment obligations or devise a business continuity plan. However, if the situation becomes untenable, the bankruptcy process can be initiated to protect creditors' interests and seek the best solution for all parties involved. Good management and compliance with bankruptcy law principles are crucial to maintaining financial stability and minimizing the risk of bankruptcy. Additionally, the bankruptcy process must also consider fairness and business sustainability aspects to safeguard the interests of all involved parties.

4. Conclusion

The implementation of Good Corporate Governance (GCG) principles is crucial in maintaining the health of a company, as through GCG, the company can enhance transparency, accountability, and responsibility in decision-making, ensuring added value for all stakeholders. Additionally, corporate debt policies also play a crucial role in determining financial stability, and their management must be carefully handled to avoid bankruptcy risks. The board of directors and board of commissioners have a significant responsibility in overseeing debt policies and taking appropriate measures if the company encounters financial difficulties. Therefore, the entire debt policy management process must align with GCG principles to ensure the long-term sustainability and success of the company.

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