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STRENGTHENING CORPORATE GOVERNANCE THROUGH LEGAL COMPLIANCE AND ETHICAL CODES OF CONDUCT

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ABSTRACT

This study investigates the role and implementation of a company's code of ethics as a cornerstone of good corporate governance. The research aims to examine the contents of corporate codes of ethics, the enforcement of sanctions for violations, and the mechanisms for preventing actions that contravene ethical standards. The code of ethics serves as a guiding framework for employees, fostering professionalism, integrity, and commitment. It encapsulates normative ethics and facilitates the practical application of corporate values in daily activities. Findings reveal that the structure and content of codes of ethics vary across organizations, ranging from concise to highly detailed formats. Employees affirm their adherence through integrity and compliance pacts, establishing a mutual agreement on the disciplinary measures for breaches. Sanctions for violations are proportionate to the nature of the offense and may include multiple forms of disciplinary action. An appeal mechanism and oversight by designated supervisors ensure the fair implementation of sanctions. Furthermore, the Board of Directors plays a pivotal role in exemplifying ethical behavior and reinforcing compliance through decisive actions. This research underscores the importance of a well-defined and enforced code of ethics in fostering an ethical corporate culture and ensuring accountability within organizations.

1. Introduction

The growth of economic activities is closely tied to the evolution of values, ethics, and morals among business actors, which influence both individual conduct and collective outcomes. Business ethics, often formalized through codes of ethics, serve as standardized “rules of the game” that promote shared well-being and guide corporate behavior. These ethical frameworks foster self-regulation within companies, helping them prevent ethical violations and align their operations with values like accountability and transparency. Corporate codes of conduct, which serve as internal guidelines, play a crucial role in operationalizing these values.

Previous research highlights the importance of adopting robust ethical codes, particularly in light of legal regulations like anti-corruption laws and due diligence requirements.[1] Business ethics are operationalized through self-regulation, often manifested as a corporate code of conduct, which provides a written framework for guiding ethical norms and corporate behavior.[2]

In practice, global corporations often implement a uniform Code of Conduct across their subsidiaries to maintain consistent ethical standards in diverse operational environments.[3] This code serves as an internal guideline with binding authority, outlining mutual obligations for all parties involved. It dictates actions that must or must not be performed to uphold the company's ethical standards. Legally, the corporate code of conduct intersects with civil law, which governs individual rights and obligations in interpersonal relationships, providing a framework for balancing interests and protecting rights. The enforcement of the code can also involve audits to ensure compliance.[4] Any violations of these obligations result in irregularities, which contradict the established rules and objectives of the code.[5] This highlights the importance of both proactive self-regulation through a code of ethics and the legal mechanisms for holding businesses accountable for ethical violations.[6]

In this context, sanctions within a corporate code of ethics serve to enforce compliance, acting as punitive measures for violations to uphold legal provisions and agreements. These sanctions ensure adherence to the code's obligations, reinforcing the integrity of the regulatory framework. In corporate settings, individuals are responsible for their actions and the legal consequences they may incur. However, corporate liability complicates this, as companies can be held accountable for their employees' actions. Understanding the distribution of responsibility between individuals and the organization is crucial for developing effective accountability mechanisms.[7]

This study represents one of the few empirical investigations assessing corporate codes of ethics, focusing on their contents, the enforcement of sanctions for violations, and mechanisms for preventing actions contrary to ethical standards in

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[1] Karen Schonfelder, S. Ramakrishna Velamuri, and Wilson Liu., Evolution of international and Chinese anti-bribery and corruption compliance programs, *Corporate Governance*, Vol.16, no.3, 2016, page.439. See too, Ayman Issa and Antonio Alleyne., Corporate disclosure on anti-corruption practice: A study of social responsible companies in the Gulf Cooperation Council, *Journal of Financial Crime*, Vol.25, no.4, 2018, page.1091.

[2] Sigit P. Santosa., *Audit Internal*, Yogyakarta, Seminar Nasional, YPIA, 2006, page.132. See too, Sritomo Wignjosoebroto., *Hukum Dalam Masyarakat (Perkembangan dan Masalah) Sebuah Pengantar ke Arah Sosiologi Hukum*, Malang, Bayumedia Publishing, 2007, page.78.

[3] Barbara Scharrer., Employees' Acceptance and Involvement in Accordance with Codes of Conduct–Chinese Business Behaviour vs. Western Compliance Management Systems, *Procedia-Social and Behavioral Sciences*, Vol.213, 2015, page.853.

[4] Mark S. Schwartz, A code of ethics for corporate code of ethics, *Journal of business ethics*, Vol.41, no.1, 2002, page.40.

[5] Philipus M. Hadjon., *Pemerintahan Menurut Hukum*, Surabaya, Yuridika, 1992, page.142.

[6] J. Kozáková, Filová, A., and Skýpalová, R., Ethical Management and Stakeholder Relations: Insights from Slovak Companies with Foreign Participation, *Journal of Infrastructure, Policy and Development*, Vol.8, no.5, 2024, page.3541.

[7] Henry Aspan, Rozaini Rosli, Fadlan Fadlan, and Irawati Irawati., Legal Mechanisms for Business Accountability: A Comparison of Soft and Hard Law in Indonesia, *Law Reform*, Vol.20, no.2, 2024, page.357.

Indonesia. While many studies in this domain are abundant in developed countries, such as the research by Kozáková, Filová, and Skýpalová on ethical management in Slovak companies with foreign participation.[8] Research by Leal and Ritt emphasizes the need for companies to adopt strong business ethics codes, particularly in light of anti-corruption laws.[9] Ajax and Strauss examine the challenges of enforcing corporate sustainability disclosures in American case law, highlighting the potential for corporate "puffery."[10] Finn and Wright focus on privacy and data protection ethics in civil drone practices,[11] while Choi et al. compare business ethics across East Asia, but both primarily address how ethical compliance is structured rather than its enforcement.[12] Yue et al. explore employee reactions to corporate moral violations, providing insights into how organizational ethics are challenged by internal lapses.[13]

Furthermore, Lee examines the enforcement of pharmaceutical companies' obligations abroad, providing a comparative perspective on how legal systems approach corporate responsibility across borders.[14] Additionally, Wang, Tang, and Li explore the impact of traditional morality and modern responsibility on green innovation, further highlighting the role of ethics in corporate practices.[15] Korkka-Knuts[16] and Reuter[17] discuss the limitations of administrative sanctions and corporate fines within the EU, underscoring the difficulties in holding companies accountable for ethical violations. Moreover, studies like those by Koos examine supply chain due diligence laws and business accountability in Europe, offering insights into the regulatory framework for corporate due diligence.[18] Similarly, Wasser and Papakonstantinou discuss the role of codes of conduct in German

[8] Jana Kozáková, Alexandra Filová, and Renata Skýpalová., Ethical management and stakeholder relations: Insights from Slovak companies with foreign participation, *Journal of Infrastructure, Policy and Development*, Vol.8, no.5, 2024, page.3541.

[9] Rogerio Gesta Leal and Caroline Fockink Ritt., The Need of Companies to Adopt Codes of Business Ethics: Compliance as a Consequence of the Determination of Objective Corporate Responsibility by Anti-Corruption Law, *Revista Juridica*, Vol.3, no.60, 2020, page.129.

[10] Ajax, Caitlin M., and Diane Strauss., Corporate Sustainability Disclosures in American Case Law, *Ecology Law Quarterly*, Vol.45, no.4, 2019, page.707.

[11] Rachel L. Finn and David Wright., Privacy, data protection and ethics for civil drone practice: A survey of industry, regulators and civil society organisations, *Computer Law & Security Review*, Vol.32, no.4, 2016, page.579.

[12] Taehee Choi, Nakano Chiaki, and Zhou Zucheng., A Comparison of Business Ethics in China, Japan, and Korea, *International Finance Review*, Vol.23, 2024, page.79.

[13] Cen April Yue, Baobao Song, Weiting Tao, and Minjeong Kang., When ethics are compromised: Understanding how employees react to corporate moral violations, *Public Relations Review*, Vol.50, no.4, 2024, page.102482.

[14] Stacey B. Lee, Informed Consent: Enforcing Pharmaceutical Companies' Obligations Abroad, *Health and Human Rights*, Vol.12, no.1, 2010, page.19.

[15] Guangliang Wang, Boang Tang, and Linyao Li., Are Good Deeds Rewarded? The Impact of Traditional Morality and Modern Responsibility on Green Innovation, *Sustainability*, Vol.16, no.22, 2024, page.9834.

[16] Heli Korka-Knuts., Evaluating Corporate Accountability for Human Rights Violations: The (Uncertain) Efficacy of Administrative Sanctions under the EU Sustainability Due Diligence Directive, *European Business Law Review*, Vol.35, no.3, 2024, page.21.

[17] Alexander Reuter., Systematically flogging the wrong: EU corporate fines violate the fundamental rights of shareholders–the European Commission as revenant of the Persian Great King Xerxes, *European Business Law Review*, Vol.32, no.4, 202, page.132.

[18] Stefan Koos., Civil Law, Conflict of Laws, and Extraterritoriality in the European Supply Chain Due Diligence Law, *Hasanuddin Law Review*, Vol.10, no.2, 2024, page.167.

employment relationships,[19] and Kruessmann addresses the role of legal professional privilege in internal investigations,[20] providing insights into compliance, yet the practical implementation of ethical codes in Indonesia remains under-researched.

In Indonesia, there are some studies like those by Aspan et al. that examine business accountability and legal mechanisms for enforcing ethical standards.[21] Additionally, Abubakar et al. delve into restorative justice in corporate dispute resolution, exploring alternative methods of resolving corporate conflicts.[22] While some studies provide valuable insights into aspects of corporate criminal responsibility,[23] there is insufficient research on how companies in Indonesia uphold ethical standards and enforce sanctions. This gap underscores the need for more focused studies on corporate governance, criminal liability, and the enforcement of ethical standards in Indonesia.

This study aims to fill that gap by critically examining how Indonesia manages corporate ethics, focusing on the enforcement of ethical codes and compliance mechanisms. It also explores the role of whistleblowing systems and the development of a robust code of ethics in ensuring effective corporate governance and accountability. By exploring the content of the code of ethics and its enforcement mechanisms, this study highlights the implications of ethical violations for corporate sustainability, governance, and employee behavior. It contributes to the discourse on corporate responsibility by providing insights into how ethical norms and their associated sanctions can promote compliance and mitigate risks to a company's reputation and operational integrity.

2. Research Methods

The research design for this study is rooted in a qualitative methodology, utilizing a normative juridical approach combined with an empirical legal approach. The normative juridical approach focuses on studying the law as an object,

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[19] Daniel Wasser and Vagelis Papakonstantinou., Codes of Conduct in German Employment Relationships–A Measure to Adequately Implementing Compliance and Data Protection?, *European Business Law Review*, Vol.35, no.2, 2024, page.176.

[20] Thomas Kruessmann., Internal Investigations in Compliance Matters: What Role for Legal Professional Privilege in Europe?, *European Business Law Review*, Vol.32, no.2, 2021, page.65.

[21] Henry Aspan, Rozaini Rosli, Fadlan Fadlan, and Irawati Irawati., Legal Mechanisms for Business Accountability: A Comparison of Soft and Hard Law in Indonesia, *Law Reform: Jurnal Pembaharuan Hukum*, Vol,20, no.2, 2024, page.355.

[22] Lastuti Abubakar, Anita Afriana, Ramalinggam Rajamanickam, and Efa Laela Fakhirah., Restorative Justice Approach in Corporate Dispute Resolution as Business Actor in Indonesia, *Journal of Indonesian Legal Studies*, Vol,9, no.1, 2024, page.132. See too, Trianah Sofiani and Heris Suhendar., The Settlement Model of Non-Performing Financing Which is More Effective and Legal Justice in Sharia Financing Companies, *Jurnal Hukum*, Vol,40, no.1, 2024, page.71.

[23] Fajar Dian Aryani., The Judicial Policy of Ratio Decidendi regarding Corporate Criminal Liability towards Just Judgments, *Indonesia Law Review*, Vol,14, no.2, 2024, page.27. See too, Nani Mulyati and Topo Santoso., Analysis of criminal liability of political parties in Indonesia, *Indonesia Law Review*, Vol,9, no.2, 2019, page.81. See too, Nur Hidayah Febriyani, and Hartiwiningsih Hartiwiningsih., Corporate criminal liability post elimination of coal faba waste status from b3 waste category in Indonesia, *Jurnal Hukum*, Vol,38, no.1, 2022, page.19. See too, Heni Rosida, Aulia Maharani, Indah Maryani, Mikha Detalim, Ridwan Arifin, and Waspiah Waspiah., Law Reform in Corporate Criminalization in Environmental Damage Cases in Indonesia, *Journal of Law and Legal Reform*, Vol.4, no.4, 2023, page.142.

systematically analyzing legal principles, frameworks, and the regulatory provisions that govern corporate ethics. Alongside this, the study also adopts an empirical legal approach, which focuses on how laws are applied in society, particularly within corporate environments. This approach examines the implementation and enforcement of corporate codes of ethics in some selected State-Owned Enterprises (SOEs) in Indonesia, observing how legal and ethical standards are enacted, interpreted, and followed by companies. By focusing on actual practices, the empirical legal approach provides valuable insights into the discrepancies between theoretical legal frameworks and their practical application in corporate governance.

In this study, the research explores the corporate codes of ethics from a selection of companies, including PT. Perkebunan Nusantara, PT Pupuk Kaltim, and PT. Industri Telekomunikasi Indonesia. Data analysis follows a qualitative methodology, utilizing content analysis to identify key themes and patterns within the data. The analytical process includes organizing the data into categories and interpreting the relationships between corporate codes, sanctions, and legal implications, providing insights into how companies manage ethical standards and the enforcement of their codes.

3. Results and Discussion

3.1. The Role of Corporate Codes of Ethics in Good Governance and Accountability

The implementation of good corporate governance relies heavily on the establishment and enforcement of ethical guidelines, which are often codified in a Code of Ethics. Good corporate governance principles, including transparency, accountability, fairness, and responsibility, require corporate management to adhere to established regulations and ensure that business practices align with ethical norms. A key element of this governance structure is the Code of Ethics, which provides a standardized framework for managing the company's operations and regulating business procedures. The Code of Ethics outlines expectations for ethical behavior, serving as a critical tool for maintaining the integrity of corporate decision-making. It provides guidelines on how to manage ethical dilemmas, ensuring that the company acts in the best interest of its stakeholders while upholding legal and moral obligations. Ethical codes play an important role in shaping corporate behavior, particularly in contexts such as anti-corruption compliance.[24] Similarly, Koos emphasizes that these codes are essential for fostering business accountability, especially in relation to supply chain due diligence and corporate governance.[25]

The Code of Ethics also serves as a preventive measure, guiding employees and management in making decisions that align with corporate values. Furthermore, it sets the stage for enforcing sanctions when ethical violations occur. López Jiménez highlight that the enforcement of such codes through sanctions and the imposition

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[24] Gedion Onyango., Whistleblowing behaviours and anti-corruption approaches in public administration in Kenya, *Economic and Political Studies*, Vol,9, no.2, 2021, page.250. See too, Armando Castro, Nelson Phillips, and Shaz Ansari., Corporate corruption: A review and an agenda for future research, *Academy of Management Annals*, Vol.14, no.2, 2020, page.965.

[25] Stefan Koos., Civil Law, Conflict of Laws, and Extraterritoriality in the European Supply Chain Due Diligence Law, *Hasanuddin Law Review*, Vol.10, no.2, 2024, page.161.

of civil liability is critical for ensuring compliance and reinforcing accountability in corporate behavior.[26] By embedding ethical principles into the framework of corporate governance, the Code of Ethics becomes a tool for managing risks associated with ethical violations, protecting both the company and its stakeholders from legal and reputational harm.

Codes of ethics are a vital component of corporate governance, particularly in large organizations where employees may not have direct personal relationships. These codes help to align employees across various levels with consistent ethical standards, enabling them to make decisions that reflect the company's values in similar circumstances. According to Leal and Ritt, well-structured codes of ethics play a significant role in fostering ethical behavior by providing a clear and universal framework for guiding corporate conduct.[27] This uniformity ensures that the company's actions are aligned with its core values, contributing to a coherent organizational culture. As ethical behavior becomes ingrained in the corporate culture, the company enhances its credibility and trustworthiness, both internally and externally. A code of ethics serves as the practical manifestation of business ethics, operationalizing abstract ethical principles into everyday corporate practices.[28] By embedding these values into a company's management practices, the code becomes a tool for ensuring that ethical decision-making is consistent across all levels of the organization. Moreover, the code of ethics communicates the principles of good corporate governance to employees, aligning their behavior with the company's objectives while fostering a culture of responsibility and integrity.[29]

Internally, the code serves as a reference point for promoting professional conduct and guiding employee behavior, helping to cultivate a workforce with high ethical standards. It typically encompasses normative ethical principles, such as the obligation to act in good faith toward oneself, the public, and all stakeholders involved. These guidelines also extend to relationships with external parties, ensuring that interactions with customers, suppliers, and competitors are handled with fairness and transparency.[30] By integrating these ethical standards into daily operations, companies not only ensure legal compliance but also contribute to the broader goal of achieving sustainable business practices.

The content of a corporate code of ethics can vary significantly depending on the organization's needs and objectives. According Patrick Murphy's framework, corporate codes of ethics are categorized into three primary types based on their

[26] David, López Jiménez, Eduardo Carlos Dittmar, and Jenny Patricia Vargas Portillo., New directions in corporate social responsibility and ethics: codes of conduct in the digital environment, *Journal of Business Ethics*, Vol,13, 2021, page.8.

[27] Cristina Alexandra Hernández Karolys., The Need of Companies to Adopt Codes of Business Ethics: Compliance as a Consequence of the Determination of Objective Corporate Responsibility by Anti-Corruption Law, *Revista Juridica*, Vol.3, no.60, 2020, page.129.

[28] Jennifer Adelstein and Stewart Clegg., Code of ethics: A stratified vehicle for compliance, *Journal of Business Ethics*, Vol.138, 2016, page.59.

[29] Patrick M. Erwin., Corporate codes of conduct: The effects of code content and quality on ethical performance, *Journal of Business Ethics*, Vol.99, 2011, page.542.

[30] Henry Aspan, Rozaini Rosli, Fadlan Fadlan, and Irawati Irawati., Legal Mechanisms for Business Accountability: A Comparison of Soft and Hard Law in Indonesia, *Law Reform*, Vol.20, no.2, page.359.

scope and content.[31] The first type is the value statement, a succinct document that outlines the fundamental principles and core values of the organization, such as integrity, transparency, and accountability. These statements are often broad, encapsulating not only ethical values but also the company's cultural and operational philosophies. These value statements are essential in setting the tone for ethical behavior, especially within organizations operating across diverse sectors and cultures, offering a shared vision for ethical conduct.[32]

The second type is the corporate credo, which typically provides a more detailed overview of the organization's responsibilities toward stakeholders such as employees, consumers, shareholders, and the broader community. Compared to a value statement, the corporate credo is more comprehensive, yet still concise, typically addressing the company's commitment to stakeholders, corporate social responsibility, and sustainable practices. This type of statement is integral in defining the company's ethical stance in a broader societal context. Korkka-Knuts highlights how such documents are crucial in ensuring transparency and corporate accountability, reinforcing public trust.[33]

The third type is the code of ethics, which is more extensive and typically covers specific ethical policies, such as conflict of interest, relationships with suppliers, and political contributions. It is often referred to as the code of conduct or ethical conduct code, outlining concrete actions that employees must follow to ensure compliance with the organization's ethical standards. These codes are essential for mitigating risks and ensuring that corporate behavior remains aligned with legal and ethical expectations, providing clear guidelines for employee conduct.[34] This shows that corporate codes of ethics play a vital role in promoting good corporate governance and ensuring accountability within organizations. By establishing clear ethical guidelines, these codes help align employees' actions with the company's values, fostering transparency, fairness, and responsibility across all levels.

3.2. Enforcing Codes of Ethics and Compliance Mechanisms in Indonesia

According to Schwartz, the development of a corporate code of conduct involves applying six moral standards to four key stages: content, creation, implementation, and administration.[35] This process allows companies to undergo ethical audits for

[31] Patrick E. Murphy., Developing, communicating and promoting corporate ethics statements: A longitudinal analysis, *Journal of business ethics*, Vol.62, 2005, page.188. See too, Patrick E. Murphy., The relevance of responsibility to ethical business decisions, *Journal of business ethics*, Vol.90, 2009, page.249. See too, Patrick E. Murphy, Implementing business ethics, *Journal of business ethics*, Vol.12, no.2, 1988, page.911.

[32] Mojca Duh, Jernej Belak, and Borut Milfelner., Core values, culture and ethical climate as constitutional elements of ethical behaviour: Exploring differences between family and non-family enterprises, *Journal of business ethics*, Vol.97, 2010, page.477.

[33] Heli Korka-Knuts., Evaluating Corporate Accountability for Human Rights Violations: The (Uncertain) Efficacy of Administrative Sanctions under the EU Sustainability Due Diligence Directive, *European Business Law Review*, Vol.35, no.3, 2024, page.32.

[34] Chu Chen, Giorgio Gotti, Tony Kang, and Michael C. Wolfe., Corporate codes of ethics, national culture, and earnings discretion: International evidence, *Journal of Business Ethics*, Vol.151, 2018, page.148.

[35] Kevin Macnish and Jeroen Van der Ham., Ethics in cybersecurity research and practice, *Technology in society*, Vol.63, 2020, page.101382.

compliance and ensures the alignment of their practices with established ethical norms. The development and effective implementation of a code of ethics are critical to ensuring that the ethical framework is operationalized within the organization, fostering consistent and measurable outcomes.

Codes of ethics are integral to regulating conduct within the business environment, providing a clear and stable framework that delineates right from wrong, especially in complex or ambiguous situations. By guiding employee behavior, a code of ethics serves as a tool for reducing subjectivity and personal biases, placing the moral authority of the organization above individual preferences. This theoretical framework is essential not only for managing ethical conduct but also for fostering organizational consistency and accountability. By embedding ethical norms into corporate structures, the code of ethics enhances compliance with legal and moral standards, contributing to the overall integrity of the organization.[36]

The Code of Ethics, company regulations, policies, and standard operating procedures (SOPs) serve as key instruments in regulating employee behavior within an organization. These internal guidelines are essential to prevent actions that could pose risks to the company and its stakeholders, including physical risks, damage to reputation, and loss of discipline. The enforcement of these rules requires the establishment of a system that includes both rewards and sanctions, ensuring accountability and compliance.

In Indonesia, legal sanctions typically fall into three categories: criminal sanctions, civil law sanctions, and administrative sanctions. Black's Law Dictionary defines sanctions as penalties or coercive measures imposed due to non-compliance with laws, rules, or orders.[37] These sanctions function as deterrents, ensuring adherence to both legal and ethical obligations within the company. The proper implementation of sanctions is essential for maintaining organizational discipline, minimizing risks, and safeguarding the company’s reputation.[38]

By enforcing clear and consistent penalties for violations, the company demonstrates its commitment to ethical behavior and establishes a transparent mechanism for handling misconduct. For instance, in PT Pupuk Kaltim, a structured system of sanctions is applied to maintain organizational integrity and discipline, ranging from written warnings to dismissal without honor, depending on the severity of the violation. These penalties serve as both a deterrent and a corrective measure, ensuring accountability at all levels of the organization. The Company's Code of Ethics is applicable to all members of the Board of Commissioners, Directors, and employees of PT Pupuk Kaltim, ensuring a uniform ethical standard across all organizational levels. This Code provides clear guidelines for behavior and performance, fostering accountability and maintaining a culture of integrity within the company. By applying these ethical standards to all employees, PT Pupuk Kaltim seeks to reinforce its commitment to good governance and

[36] Mark S. Schwartz, A code of ethics for corporate code of ethics, *Journal of business ethics*, Vol.41, no.1, 2002, page.29.

[37] Henry Campbell Black., *Black's Law Dictionary, 6th ed. St. Paul,* Wisconsin, West Publishing, 1990, page.131

[38] Henry Aspan, Rozaini Rosli, Fadlan Fadlan, and Irawati Irawati., Legal Mechanisms for Business Accountability: A Comparison of Soft and Hard Law in Indonesia, *Law Reform: Jurnal Pembaharuan Hukum*, Vol.20, no.2, 2024, page.359.

organizational responsibility.

Sanctions for violations of the Code of Ethics are structured to correspond with the severity of the offense committed. These sanctions can range from written warnings (first, second, and third), to more severe measures such as transfers to different work environments, salary reductions, demotions in rank or salary scale, and the revocation of specific benefits or compensation. In more extreme cases, employees may face status downgrades, temporary suspension, or even dismissal, either with or without honor. This tiered approach to sanctions ensures that actions taken align with the gravity of the violation, reinforcing both the effectiveness and fairness of the enforcement process.[39]

In the event of violations, sanctions may be imposed starting with a formal warning letter. If violations continue, the process for issuing subsequent warning letters must adhere to the legal provisions established under Law Number 6 of 2023, which incorporates the Government Regulation in Lieu of Law Number 2 of 2022 concerning Job Creation (Job Creation Law). The process typically involves a first warning letter, followed by additional warnings, with the potential for dismissal if the employee fails to address the issue after receiving the final warning or if the violation is deemed severe and irreparable. Serious violations may include offenses classified as civil, criminal, or specific misconduct such as corruption.

Disciplinary actions, including termination, are applicable only when violations are explicitly outlined in work agreements, company regulations, or collective labor agreements, as stipulated in the Job Creation Law. Previous regulations, including Article 161 of Law No. 13/2003 on Manpower, which was superseded by the Job Creation Law, similarly addressed these matters. If an employee violates the provisions in a work agreement, company regulations, or collective work agreement, the employer may terminate the employment relationship following the issuance of the first, second, and third warning letters. Each warning letter is valid for a maximum of six months unless otherwise specified in the relevant agreements. According to Article 161, paragraph (2), of the Manpower Law, warning letters may be issued in a non-sequential manner, as determined by the terms set forth in the applicable agreements.

In the Job Creation Law, the previous provisions have been removed and replaced with Article 154A (1) letter j, which states that the termination of an employment relationship can occur if the employee violates the terms outlined in the Work Agreement, Company Regulations, or Collective Labor Agreement, and has previously received the first, second, and third warning letters consecutively. Each warning letter remains valid for a maximum period of six (6) months, unless otherwise specified in the Work Agreement, Company Regulations, or Collective Labor Agreement. This provision further stipulates that violations of the Work Agreement, Company Regulations, or Collective Labor Agreement, which have been preceded by the issuance of consecutive warning letters, shall be subject to termination of the employment relationship, provided that each warning letter is valid for no longer than six months, unless specified differently within the relevant agreements.

[39] Evan A. Peterson, Compliance and ethics programs: Competitive advantage through the law, *Journal of management & governance*, Vol.17, 2013, page.1029.

Thus, the consequences of violating the company's Code of Ethics are clearly outlined in the legal framework. All personnel are required to acknowledge their commitment to the company's ethical standards by signing an integrity and compliance pact. This pact signifies mutual agreement and understanding of the discipline that will be imposed on employees who fail to adhere to the Company's Code of Ethics. The Code of Ethics serves as a guideline for employees to understand expected behavior and conduct within the organization, ensuring a shared understanding of ethical responsibilities across all levels. If violations occur, employees may face various disciplinary actions, which are determined based on the severity and nature of the offense. These actions can range from written warnings, temporary suspensions, demotion, or even dismissal, in accordance with the provisions stipulated in the Work Agreement, Company Regulations, or Collective Labor Agreements. In line with the regulations outlined in the Job Creation Law, a series of warnings must be issued before termination occurs, with each warning letter valid for a maximum of six months unless otherwise specified in the agreements. This ensures that employees are given a reasonable opportunity to correct their behavior while also maintaining the integrity of the company's ethical framework and compliance structure.[40]

3.3. Whistleblowing System in Ensuring Accountability and Governance

Reports of ethical malpractice among certain individuals continue to be a concern for organizations striving to maintain high ethical standards. This organizational ethics highlight that ethical misconduct not only affects a company's reputation but can also lead to significant financial and non-financial losses.[41] Any violation of the code of conduct and applicable corporate discipline regulations, which may result in either financial or non-financial losses for the company, necessitates disciplinary action. Sanctions should be proportionate to the severity of the violation and aimed at both correcting the behavior and deterring future violations. Violations may include breaches of laws, regulations, the code of ethics, and internal company policies. Such misconduct undermines the ethical framework established by the company, emphasizing the need for clear and consistent enforcement mechanisms.

This can be exemplified in PT Perkebunan Nusantara 8 (PTPN 8), an agro-industrial company engaged in tea, rubber, cinchona, cocoa, palm oil, and gambier production with operations in West Java. At PTPN 8, a robust whistleblowing system is in place to address ethical violations such as corruption, embezzlement, conflicts of interest, harassment, and violations of operational policies. According to company regulations, fraudulent activities that result in financial or non-financial losses, as well as actions compromising workplace safety, are subject to investigation and corrective measures. This system aligns with the broader principles of corporate governance, ensuring that ethical misconduct is addressed

[40] Sulistyowati Sulistyowati, Agus Salim, Puspa Eriyani, and Siti Mastoah., Government Regulation Substituting the Law on Job Creation in the Perspective of Constitutional Law, *Jurnal Hukum*, Vol.39, no.2, 2023, page.245.

[41] Heli, Korka-Knuts., Evaluating Corporate Accountability for Human Rights Violations: The (Uncertain) Efficacy of Administrative Sanctions under the EU Sustainability Due Diligence Directive, *European Business Law Review*, Vol.35, no.3, 2024. Page.500.

transparently and effectively.

At PT Perkebunan Nusantara 8 (PTPN 8), the company's internal control system is designed to prevent irregularities and fraudulent practices while enhancing the implementation of good corporate governance. This system is reinforced through the Whistleblowing System (WBS), which provides a transparent mechanism for reporting violations. The WBS allows individuals to report actions that contravene laws, breach the company's code of ethics or code of conduct, or cause harm to the company and its stakeholders. Reports can be made against various parties, including the Board of Commissioners, the Board of Directors, employees, and business partners, as identified by the whistleblower. This shows that the effective corporate governance of such systems plays a crucial role in maintaining accountability and transparency. Whistleblowers, whether internal (employees) or external (customers, suppliers, business partners, or community members), serve as critical agents in ensuring compliance and organizational integrity.

Similarly, at PT Pupuk Kaltim, the company has established a Violation Reporting System and Procedures, which allow whistleblowers to report suspicions or actual violations of the Company's Code of Ethics. According to the guidelines, reports may be submitted directly or in writing to the Head of the Integrity and Good Corporate Governance (GCG) Team or the Board of Directors. This proactive approach ensures that violations are addressed promptly and in accordance with the company's ethical standards, thus enhancing organizational transparency and accountability.

The whistleblower is required to provide clear evidence, information, or indications of the reported violation, ensuring that it can be traced and appropriately followed up. Without sufficient information, the report may be difficult to investigate. The reporter must clearly identify the perpetrator of the violation, describe the violation committed, and state their own identity, while ensuring the confidentiality of their identity. The confidentiality of the report will be safeguarded, unless disclosure is necessary for the investigation or for the benefit of the company.

Another instance of the implementation of this system is at PT Industri Telekomunikasi Indonesia (PT INTI), a Bandung-based state-owned enterprise primarily engaged in the production of telecommunications equipment. According to the Guidelines on the Violation Reporting System and Procedures of PT INTI, the Board of Directors ensures that employees will not face any adverse consequences for reporting violations or suspected violations of the Company's Code of Conduct. Within this company, violations of the Code of Ethics are addressed with firmness and consistency. All complaints regarding potential violations, made in good faith, will be investigated thoroughly and impartially, utilizing relevant internal and/or external support. Violations will be classified according to their severity—light, medium, or severe—and sanctions will be imposed commensurate with the level of the violation. The determination of the violation's severity and the corresponding sanctions will be made in a special meeting, with the results, including the sanctions to be imposed, reported to the President Director. The Board of Directors of PT INTI holds the authority to determine whether a violation of the Company's Code of Ethics has occurred. Alternatively, the Integrity and Good Corporate Governance (GCG) Team is also authorized to assess violations of the Code of Ethics at PT INTI and PT Pupuk

Kaltim. The Board of Directors issues a decree that outlines the severity of the violation, specifies the sanctions for such violations, and designates the authority responsible for executing these sanctions.

The procedures for imposing disciplinary sanctions or office penalties on employees involve an examination by the employee's direct supervisor or an appointed official before sanctions are applied. The results of this examination are recorded in the Minutes of Examination, which must be signed by both the examiner and the employee being examined. Subsequently, the employee's immediate supervisor or the appointed official evaluates the violation and recommends the appropriate sanction and its severity to the company's management. Based on the supervisor's recommendation, the company's management determines the appropriate disciplinary sanctions or office penalties to be imposed.

The Company's Code of Ethics serves as a set of guidelines for behavior and conduct in the performance of company duties. This Code applies to all members of the Board of Commissioners, the Board of Directors, and employees. Each year, all employees are required to affirm their adherence to the Company's Code of Ethics by signing an annual Integrity and Compliance Pact. The signed Annual Integrity and Compliance Pact is a prerequisite for the continuation of an employee’s tenure within the Company.

The Compliance function is designated to support the Board of Directors in facilitating the implementation of the Company's Code of Ethics and independently monitoring its adherence. The Board of Directors is responsible for ensuring that the Code of Ethics is communicated, understood, and implemented by all personnel within the Company. Employees are encouraged to seek clarification on any aspects of the Code of Ethics that are unclear or not well understood by consulting their immediate supervisors or the Compliance Unit.

Furthermore, the Board of Directors determines the scope of duties, responsibilities, and authorities of the compliance function in the implementation, maintenance, and improvement of the Company's Code of Ethics. The commitment of the Board of Directors to upholding ethical standards plays a crucial role. This commitment is manifested in various forms, including efforts to promote business ethics to all employees within the company and setting an example for employees in adhering to these ethical standards. It also involves a commitment to penalizing ethical violations. The development of a strong business ethos is influenced by the leadership style within the company. The independence of the Board of Directors is positively associated with the effectiveness of ethical policies, particularly those related to communication with employees. Board independence is a key expression of oversight, fostering transparency and ensuring the protection of the best interests of all stakeholders, including employees.[42]

3.4. Establishing a Robust Code of Ethics for Effective Corporate Governance and Compliance

The establishment of a Standard Code of Ethics is integral to ensuring effective

[42] Katia Furlotti and Tatiana Mazza., Code of ethics and workers' communication policies: The role of corporate governance, *Corporate Social Responsibility and Environmental Management*, Vol.27, no.6, 2020, page.3066.

corporate governance and fostering compliance with both regulatory requirements and international standards. This framework provides a structured approach for defining ethical conduct within the organization, enabling the alignment of internal policies with global best practices. By incorporating a comprehensive Code of Ethics, companies establish clear expectations for employee behavior, ensuring transparency, accountability, and ethical decision-making across all levels of the organization.[43]

Such a Code serves as a fundamental tool for communicating the company's core values and policies, ensuring consistency in the actions and decisions of its personnel.[44] The adoption of ethical standards through the Code fosters a shared understanding of acceptable behavior in interactions with employees, customers, suppliers, stakeholders, and the broader society. By internalizing and adhering to these standards, employees contribute to strengthening the company's internal control systems, promoting a culture of integrity and compliance that mitigates risks and supports sustainable organizational practices.[45]

All company personnel are required to declare their compliance with the Company's Code of Ethics by signing an integrity and compliance pact. Both management and employees are required to sign the Code of Ethics every two years, even if they may not fully agree with it; however, all are expected to sign it. From a normative legal perspective in Indonesia, the mutual agreement between the parties, as outlined in the signed Code of Ethics, forms a legally binding contract, as regulated by Article 1320 of the Civil Code. This agreement contains legal conditions, one of which is mutual consent. The signing of an agreement between the parties creates legal consequences, as stipulated in Article 1313 of the Civil Code, which defines an agreement as an act in which one or more individuals bind themselves to one or more other individuals. An agreement is a legal act that generates legal consequences for the benefit of one party at the expense of another, or for the benefit and expense of each party on a reciprocal basis.

A corporate code of conduct serves as an internal guideline that holds binding power only within the scope of the company. A written agreement in the form of a code of ethics is legally binding, as regulated by Articles 1335, 1337, 1339, and 1374 of the Civil Code. Specifically, Article 1335 limits the principle of "freedom of contract" in commercial agreements, stating that contracts made without cause, or based on false or prohibited causes, are void. Article 1337 restricts freedom of contract by stating that a cause is illegal if it conflicts with the law, public morals, or public order. Article 1339 regulates the limitation of the "freedom of contract" principle in commercial agreements, stating that contracts are bound by nature, propriety, custom, and law. The customs referred to here are rules that are consistently observed within a particular group, not local customs. Meanwhile, Article 1374 establishes that customary terms, which are always agreed upon, are

[43] Simon Webley and Andrea Werner., Corporate codes of ethics: Necessary but not sufficient, *Business Ethics: A European Review*, Vol.17, no.4, 2008, page.411.

[44] Dmitry A. Ruban and Natalia N. Yashalova., 'Greening'business ethics in gold mining: Evidence from the codes of conduct, *Resources Policy*, Vol.74, 2021, page.102322.

[45] Sven Helin and Johan Sandström., Resisting a corporate code of ethics and the reinforcement of management control, *Organization studie*, Vol.31, no.5, 2010, page.604.

implicitly included in a contract. This agreement establishes an engagement, entailing rights and obligations to be fulfilled by both parties. In contract law, "achievement" refers to the fulfillment of obligations outlined in the contract, which must be carried out or refrained from by the parties as specified. In this context, the achievement aligns with the commitments set forth in the Company's Code of Ethics, ensuring that obligations are met in accordance with the agreement.[46]

One concept closely related to legal obligation is legal responsibility, which refers to an individual's obligation to fulfill what is required of them, signifying their liability to bear consequences (e.g., being sued, blamed, or held accountable). Accountability must be grounded in factors that grant one person the legal right to sue another, thereby establishing the other party's obligation to provide accountability.[47] Legally, responsibility arises from an individual's freedom in relation to their actions, especially concerning ethical or moral considerations. This internal drive means that individuals do not act solely due to external rules; instead, they feel that failure to adequately fulfill their duties undermines their entitlement to what is rightfully theirs.[48]

In the concept of legal responsibility, an individual is legally accountable for a specific act and may bear responsibility for a sanction in the case of a wrongful act. Civil liability can be categorized into two main forms: first, contractual liability, and second, liability for unlawful acts. The concept of liability for unlawful acts exists to protect individual rights. The law regarding unlawful acts defines the rights and obligations when a person commits an act of error, negligence, or injury to another person, causing harm or violating the law, as stipulated in Article 1365 of the Civil Code.

Legal responsibility arising from an agreement or contractual relationship (privity of contract) refers to the legal relationship that generates rights and obligations for the parties involved. Responsibilities based on contractual relationships arise when there is a violation of the agreement, such as performing an act that is prohibited or failing to fulfill a required obligation. Civil liability for violations of the code of ethics as a contractual responsibility is based on the existence of a contractual relationship outlined in the company's code of ethics. If one of the parties fails to perform its obligations, causing harm to the other party, the injured party may file a lawsuit based on a breach of contract. Failure to fulfill the obligations as stipulated in the contract is referred to as default.

The term "default" refers to the failure to perform or a breach of contract. When a party acts in a manner prohibited by the agreement or fails to meet the performance standards outlined in Article 1243 of the Civil Code, it constitutes a state of default. Article 1243 of the Indonesian Civil Code addresses the replacement of costs, losses, and interest resulting from the failure to fulfill an obligation. This article underscores the importance of adhering to the commitments made. If a party fails to perform as agreed, or fails to meet a

[46] Subekti., *Pokok Pokok Hukum Perdata*, Jakarta, PT Intermasa, 2008, page.76.

[47] Hun Joon Kim and Jason C. Sharman., Accounts and accountability: Corruption, human rights, and individual accountability norms, *International Organization*, Vol.68, no.2, 2014, page.419.

[48] Mark S. Schwartz, A code of ethics for corporate code of ethics, *Journal of business ethics*, Vol.41, no.1, 2002, page.31.

promise, it can be considered a breach of contract, potentially leading to legal sanctions. Legal sanctions for defaulting parties are penalties imposed on those who fail to honor their commitments. A person is legally responsible for their actions and may face sanctions if their actions contravene the company's code of ethics.

Sanctions are a tool for enforcing the Code of Ethics, functioning as a form of punishment aimed at promoting compliance and discipline. The imposition of disciplinary measures for violations of the Company's Code of Ethics is predetermined. Various types of disciplinary sanctions can be applied to employees or workers for violations, including those related to the Code of Ethics. These sanctions may include verbal warnings, written warnings, withholding of salary increases, rank promotions, or bonuses, and, in severe cases, termination of employment. In the case of termination, approval from the Board of Directors is required, followed by submitting a request for permission to the Ministry of Manpower, in accordance with Indonesia's Manpower Law.

A Collective Agreement is an agreement between the parties, outlined within the Code of Ethics, that governs the resolution of violations. The handling of breaches of the Code of Ethics and Professional Responsibility involves thorough investigations based on factual evidence. Decisions are made considering the consequences of the action, the severity of the violation, and the motive behind it. Through careful and objective deliberation, the Board of Directors determines the appropriate sanctions, which are tailored to the seriousness of the violation and the employee’s organizational rank or position.

The findings indicate that the implementation of a robust Code of Ethics and the enforcement of appropriate disciplinary sanctions are essential components of good corporate governance. The establishment of clear ethical standards and the application of sanctions for violations not only promote compliance and discipline but also safeguard the company's reputation and legal standing. As emphasized by previous research, ethical behavior within organizations is crucial for fostering trust and transparency, both internally and externally.[49] The role of senior management, particularly the Board of Directors, in maintaining and reinforcing these ethical standards is vital for ensuring consistent enforcement and accountability across all levels of the organization.

Moreover, the effectiveness of sanctions, as explored in the literature, depends on the alignment of legal frameworks and organizational policies that are clearly communicated and understood by all employees. The disciplinary measures must be proportionate to the severity of the violation, ensuring fairness and consistency in their application.[50] As shown in the examples of PT INTI and PT Pupuk Kaltim, adherence to both ethical standards and legal requirements strengthens internal controls and enhances organizational integrity. This approach not only aligns with

[49] Heli Korka-Knuts., Evaluating Corporate Accountability for Human Rights Violations: The (Uncertain) Efficacy of Administrative Sanctions under the EU Sustainability Due Diligence Directive, *European Business Law Review*, Vol.35, no.3, 2024, page.132. See too, Jana Kozáková, Alexandra Filová, and Renata Skýpalová., Ethical management and stakeholder relations: Insights from Slovak companies with foreign participation, *Journal of Infrastructure, Policy and Development*, Vol.8, no.5, 2024, page.3541.

[50] Thom Brooks., *Punishment: A critical introduction*, Oxfordshire, Routledge, 2021, page.152.

global best practices but also contributes to the long-term success and sustainability of the company.[51]

From a normative legal perspective, the enforcement of a Code of Ethics within an organization is not only a matter of internal governance but is also closely linked to the legal obligations set forth by national laws and international standards. As articulated in Indonesia's Civil Code and the Manpower Law, contractual obligations and the consequences of breaching such agreements are legally binding and enforceable through sanctions. Previous research emphasizes that when a company establishes a Code of Ethics, it creates a framework that aligns both ethical principles and legal responsibilities, ensuring that employees are aware of the potential legal consequences of unethical conduct.[52] Additionally, legal scholars argue that by formalizing these ethical standards through contracts, including collective agreements and codes of conduct, companies not only protect their business interests but also promote a legal culture of accountability and responsibility.[53] This integration of legal norms with organizational policies ensures that ethical violations are treated with the necessary legal scrutiny, fostering a compliant and transparent organizational environment.

4. Conclusion

The findings underscore the importance of corporate codes of ethics in fostering good governance and accountability within organizations. These codes offer a framework for ethical decision-making, ensuring consistency across all levels of the organization and aligning actions with company values. By integrating ethical principles into corporate practices and enforcing compliance, corporate codes mitigate legal risks, enhance transparency, and promote a culture of responsibility and integrity. This ultimately supports sustainable business practices and accountability.

A well-implemented code of ethics, coupled with clear sanctions for violations, is essential for regulating employee conduct and maintaining organizational integrity in Indonesia. Companies such as PT Pupuk Kaltim enforce tiered disciplinary actions for ethical breaches, ranging from warnings to dismissal, in accordance with the Job Creation Law, ensuring a fair and consistent approach to managing misconduct. These measures uphold legal and moral standards, helping to mitigate risks and protect the organization's reputation.

The findings also highlight the significance of whistleblowing systems in maintaining corporate accountability and governance. Companies like PT Perkebunan Nusantara 8 (PTPN 8), PT Pupuk Kaltim, and PT INTI have established robust reporting systems to address ethical misconduct, such as corruption and policy violations. These systems ensure transparency, fair enforcement of disciplinary actions, and foster a culture of accountability. The commitment of the Board of Directors to uphold ethical standards further reinforces the effectiveness

[51] Diane-Laure Arjaliès and Julia Mundy., The use of management control systems to manage CSR strategy: A levers of control perspective, *Management Accounting Research*, Vol.24, no.4, 2013, page.298.

[52] Jennifer Adelstein and Stewart Clegg., Code of ethics: A stratified vehicle for compliance, *Journal of Business Ethics*, Vol.138, 2016, page.58.

[53] Niklas Egels-Zandén and Henrik Lindholm., Do codes of conduct improve worker rights in supply chains? A study of Fair Wear Foundation, *Journal of cleaner production*, Vol.107, 2015, page.37.

of these systems in ensuring compliance with both internal and external regulations.

As implications, a well-structured Code of Ethics, supported by legal frameworks and consistent enforcement, is vital for corporate governance and regulatory compliance. These measures help align employee behavior with global standards, ensuring transparency, accountability, and ethical decision-making, and ultimately contributing to the long-term success and compliance of organizations.

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