

## IMPLICATIONS OF MULTIPLE POSITIONS OF THE BOARD OF DIRECTORS ON GOOD CORPORATE GOVERNANCE: RISK AND SUSTAINABILITY PERSPECTIVES

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### ABSTRACT

The Board of Directors has a key role in making strategic decisions and carrying out the oversight function within the company. However, the phenomenon of multiple positions, in which one individual holds several positions on the Board of Directors or other corporate boards, can cause a conflict of interest and affect the overall effectiveness of Good Corporate Governance. This study aims to investigate the implications of concurrent positions on the Board of Directors for Good Corporate Governance from a risk and sustainability perspective. This research uses a qualitative approach with descriptive methods. The results of the study show that the practice of holding multiple positions on the board of directors has negative implications for Good Corporate Governance (GCG), including the risk of conflict of interest, lack of transparency, and a decrease in the company's operational efficiency. This threatens accountability, transparency and independence in managing the company. To overcome this impact, companies need to separate positions, increase independent oversight, and increase transparency through clear reporting. Thus, the implementation of good and sustainable GCG can be guaranteed, and the company's reputation as an entity with responsibility and integrity can be strengthened.

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### 1. INTRODUCTION

Board interlocking, which involves board members holding positions in more than one company, is a commonly used management practice to provide a reliable and economical tool for strengthening communication between companies through leveraging the collective experience and knowledge of board members. A director who is involved in board interlocking can serve in different companies simultaneously (Haunschild, 1993).

In this role, they serve as liaison between the companies. With extensive experience in management in general and strategic management in particular, they bring valuable insights and perspectives into better decision making and in-depth understanding of complex business environments (Davis, 1996)

One of the provisions relating to the dual positions of the board of directors is law number 5 of 1999 concerning the prohibition of monopolistic practices and unfair business competition. In article 26 of law number 5 of 1999, it is said that a person who holds the position of director or commissioner of a company, at the same time is prohibited from holding concurrent positions as a director or commissioner in another company, if these companies are in the same relevant market, have close links in the field or type of business, or can jointly dominate the market share of certain goods and or services, which can result in monopolistic practices and or unfair business competition (Samawati, 2018).

In the face of scarcity of financial and human resources, companies are in intense competition for access to the best talent who can fill board positions (Ellitan, 2002). They are bidding competitively to attract and retain board members who have a sufficient level of experience to ensure effective control over ongoing decision-making. The position of the board of directors is becoming increasingly important in determining the strategic direction of the company, facing complex market challenges, and achieving competitive advantage (Surjani, 2002).

The high competition in recruiting qualified board members illustrates how important their role is in determining the company's success. In a competitive and rapidly changing business environment, the presence of a skilled and experienced board of directors is crucial for formulating a long-term vision,

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developing the right strategy, and making timely decisions to achieve company goals (Farida & Kusumaningtyas, 2017).

The benefits of multiple board of directors positions which include mutual monitoring of one another refer to the ability of board members who have positions in several companies to exchange information and experiences from existing business practices in other companies (Abidin & Prabantariko, 2021). This concept is supported by the theory put forward by Davis (1991), which asserts that multiple board of directors positions can provide benefits to companies by gaining insight into various business practices that have proven successful in different business environments.

In this context, members of the board of directors who serve in various companies can utilize the knowledge and experience they gain from one company to be applied in making decisions in other companies (Santoso & Utama, 2021). They can find more innovative solutions or effective strategies based on learning from best practices that have proven successful in the companies where they also serve (Deviacita & Achmad, 2012).

The existence of multiple positions on the board of directors, although it can provide a number of benefits for the company, also raises several problems and is an indication of weak Good Corporate Governance (GCG). One of the main problems that arise is the potential for conflict of interest between the companies involved (Santoso, 2022). When members of the board of directors serve in multiple companies, they may encounter situations where decisions made for one company can affect the interests of the other companies they serve. This can lead to a situation where certain personal or corporate interests dominate over the interests of the company as a whole (Wulandari & Raharja, 2013).

In addition, concurrent board of directors positions are also associated with the issue of excessive director compensation. In some cases, board members serving at multiple companies can influence their own salary and benefit decisions. This can lead to too high compensation given to directors without careful consideration of their performance and the real contribution they make (Nibraska & Seroja 2023).

According to Ferris et al (2003) having multiple boards of directors risks reducing the effectiveness of monitoring activities because directors who hold multiple positions have to supervise more than one company. Directors who have involvement in multiple companies must divide their attention and time between these various responsibilities, which means they may not be able to provide optimal and in-depth oversight in every company involved.

Effective oversight is an important part of Good Corporate Governance. The board of directors has the main task of overseeing and overseeing company policies, strategies and performance to protect the interests of shareholders and ensure the company operates ethically and efficiently (Nurhasanah et al., 2021). Careful supervision also helps prevent and overcome risks and ensures compliance with applicable laws and regulations (Fairchild & Li, 2005).

Poor corporate governance due to multiple positions on the board of directors has the potential to threaten the sustainability of the company in the long term. When directors hold multiple positions in several companies, the risk of conflict of interest, lack of transparency, and lack of effective oversight can increase. These negative impacts can undermine integrity and accountability in decision-making, as well as reduce a company's ability to face the challenges and opportunities that exist in a changing market (Lee et al, 1999).

This study aims to understand the adverse effects that may arise from having multiple positions on the board of directors on effective oversight, optimal decision-making, and integrity and transparency in Good Corporate Governance. In addition, this study also aims to identify potential conflicts of interest and other risks that could threaten the long-term sustainability of the company. The benefit of this research is to provide insight and deeper understanding of how multiple positions on the board of directors can affect Good Corporate Governance and the risks associated with it. The findings from this research can be used as a basis for developing better governance policies and practices, thereby increasing awareness and vigilance of the potential negative impacts of multiple board positions and supporting companies to achieve sustainable and successful sustainability in a complex business environment.

## 2. METHODS

This study uses a qualitative approach with a focus on determining key informants who can provide relevant information according to the research objectives. Qualitative methods are used to explore and understand phenomena that are not yet well known, as well as provide complex details about an event or social reality that are difficult to express with quantitative methods. In this study, data were obtained through observation, interviews and documentation to ensure complete and relevant data (Moleong, 2014). Data analysis was carried out by reducing, presenting, and drawing conclusions from the findings

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obtained. The purpose of this study is to provide an in-depth and comprehensive picture of the implications of concurrent board of directors positions on Good Corporate Governance, with a focus on risk and sustainability aspects.

### 3. RESULTS AND DISCUSSION

Along the way, there have been several problems and non-compliance in the implementation of Good Corporate Governance (GCG) in Indonesia. GCG is a principle and reference in controlling a company so that checks and balances occur between stakeholders. The importance of implementing GCG is in principle to regulate as well as prevent mistakes that can pose a risk of loss to the company, especially for the Directors and Commissioners as the Company's organs that take and determine the direction of company policy (Hashim & Rahman, 2011).

It is very important for companies to provide a strong commitment to consistent and sustainable GCG implementation. Good GCG practices must be strictly followed, and there must be effective and transparent oversight to ensure compliance with GCG principles in all aspects of the company. Thus, the company can minimize the risk of errors and losses, as well as build a strong reputation as a company that is responsible and with integrity. By allowing the practice of multiple positions, it can at least violate 3 (three) GCG principles, including:

#### A. Responsibility

The principle of accountability in Good Corporate Governance (GCG) is a very important principle to ensure that the management of the company is in accordance with the applicable laws and regulations. This principle requires that every organ of the company can prove that its business activities do not violate applicable laws and regulations. For example, if a company operates within an industrial scope regulated by the Law on the Prohibition of Monopolistic Practices and Unfair Business Competition, the company must comply with and comply with these legal provisions in conducting its business.

However, when there is a practice of multiple positions within the company, the principle of accountability in GCG can be threatened. Multiple positions can cause a conflict of interest between the company and the parties involved in the multiple positions. This can cause decisions and actions taken not to be fully based on the interests of the company, but to prioritize personal interests or certain groups. Thus, the main goal of the company to achieve the goals and objectives of the organization can be distorted, and lead to the achievement of goals for the benefit of individuals or groups.

#### B. Openness (Transparency).

Violation of the principle of Transparency in Good Corporate Governance (GCG) due to the practice of multiple positions can have a serious impact on the company and its stakeholders. First, when someone holds multiple positions and makes decisions based on the interests of certain parties, it is likely that relevant and important information will not be disclosed to all company stakeholders. This is contrary to the principle of transparency which requires that every organ of the company must disclose all information related to corporate decision making. As a result, stakeholders will not receive complete and accurate information to make the right decisions regarding investment, risk or involvement with the company.

Second, multiple positions can open opportunities for misuse of company information and secrets. A person who holds two positions at the same time can have access to confidential information from one company that could benefit another company where they also hold office. This can create injustice and undermine a healthy competitive climate in the market. Companies that receive confidential information from a person holding multiple positions can have an unfair competitive advantage over their competitors. As a result, business competition is not conducive and can harm other companies that should compete fairly.

#### C. Independence

The practice of multiple positions can cause a violation of the principle of Independence in Good Corporate Governance (GCG). The principle of independence requires that every organ of the company can carry out its duties independently without conflict of interest. By having concurrent positions in two companies at the same time, an individual may face a situation where decisions taken in one company may be influenced by the interests or agenda prevailing in another company that he both leads. As a result, independence in making decisions is threatened, and this can reduce objectivity in making decisions that should be made based on the interests of the company itself.

The importance of maintaining corporate independence can be seen from the efforts made by several companies in their Good Corporate Governance reports. To maintain the independence aspect, the company usually implements a policy that prohibits the practice of holding multiple positions for the Board of Directors, Commissioners, or other management arrangements related to the Board of Directors or carrying out supervisory duties. This policy is intended to ensure that every individual who holds key positions has full focus on the company they lead, without any ties that could affect the company's strategic decisions.

From the aspect of risk and sustainability, the practice of holding multiple positions on the board of directors can have negative implications for Good Corporate Governance (GCG). First of all, multiple positions can increase the risk of a conflict of interest. When a member of the board of directors serves in two or more companies, it is likely that there will be situations where decisions in one company can affect or benefit the other companies he or she both leads. This can create conflicts of interest between different companies and make it difficult for board members to make objective decisions that are in favor of the interests of the company they are leading.

Furthermore, multiple positions can also affect transparency and accountability in company management. If a member of the board of directors has concurrent positions in several companies, the information that should be disclosed to stakeholders may not be fully disclosed or accessed properly. This can lead to a lack of clarity in decision making and reduce transparency in company operations. As a result, stakeholders such as investors, employees and the general public may not receive accurate and complete information about the company, which impacts the trust and reputation of the company.

Furthermore, the practice of multiple positions can also affect the efficiency and effectiveness of the company's operations. Serving at several companies simultaneously can distract a member of the board of directors' attention and time, so that he cannot fully contribute to every company he leads. This can lead to a lack of focus and suboptimal problem solving, which in turn can hinder a company's growth and innovation. This lack of operational efficiency can make it difficult for companies to face intense business competition and affect their long-term competitiveness.

The practice of multiple positions on the board of directors carries the potential for serious risks to the focus and performance of each individual company. A director holding several positions in various companies is at risk of not being able to give adequate attention to each entity they serve. The presence of demands from various companies can result in the division of time and energy, thereby hampering their ability to analyze problems in depth and make sound decisions. Complex and important strategic decisions require thorough analysis and in-depth understanding of the company's internal and external dynamics. However, with divided attention, it is likely that the director may rely on superficial information or recommendations from subordinates without thoroughly checking. As a result, the risk of error in making decisions increases, and companies may miss opportunities to take advantage of opportunities or overcome challenges quickly and effectively.

Finally, the practice of holding multiple director positions that are inconsistent with the principles of Good Corporate Governance (GCG) has serious consequences for investor and stakeholder confidence in the company. When directors are involved in multiple roles in multiple companies, there is the potential for conflicts of interest and a lack of effective oversight. This can lead to doubts and distrust of the company's seriousness in implementing good governance practices. Investors and stakeholders who feel their trust in the company is shaken tend to be hesitant to invest their funds or enter into long-term partnerships. Uncertainty about how strategic decisions will be affected by conflicts of interest can cast doubt on the ability of directors to protect shareholder interests.

This loss of investor and stakeholder confidence also has a negative impact on the company's overall reputation. A damaged reputation can negatively impact a company's public image, lead to decreased customer loyalty, and make it difficult for a company to attract and retain the best talent in the industry. In addition, if the company is listed on the stock market, the eroded trust can also lead to a decrease in the value of the shares, causing financial losses for the shareholders.

In dealing with the negative impact of multiple positions on GCG, companies must take steps to improve good governance practices, such as:

1. Separation of Positions: Separating the positions between the executive director and the supervisory board is a critical step in strengthening the principles of Good Corporate Governance (GCG). With this separation, the potential for conflicts of interest can be reduced because no individual has full control over decision-making and oversight. The executive director will focus more on managing the company's daily operations, while the supervisory board has the role of overseeing executive performance and ensuring that policies are taken in accordance with company goals and the

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- interests of shareholders. In addition, the separation of positions also increases transparency and accountability because there is a separation of powers and an independent oversight function.
2. Enhance Independent Oversight: Independent inspectors are individuals who have no business relationship or economic interest with the company, so they can provide an objective view and be free from conflicts of interest. The existence of an independent director brings a critical perspective and independence in oversight of the actions of the board of directors and company policies. They play a role in testing and evaluating the strategic decisions of the directors, providing critical guidance, and voicing their concerns without fear of pressure from certain parties. In addition, the independent director also plays a role in establishing independent committees, such as the Audit Committee and Remuneration Committee, which are responsible for assessing financial aspects, risk management, and salary and benefit policies, while taking into account the interests of all stakeholders.
  3. Improved Reporting and Transparency: By carrying out more transparent reporting, companies will provide clear and comprehensive information about company policies, decisions, and performance to stakeholders, including shareholders, investors, employees, and the wider community. This transparency opens opportunities for external parties to better supervise, identify potential conflicts of interest, and assess whether company policies and actions are in accordance with GCG principles. In addition, better reporting and transparency practices will also increase the accountability of the board of directors and management for decisions taken, because stakeholders can easily measure company performance based on the information submitted.
  4. Encouraging Diversity and Independence in the Board of Directors: Diversity in the board of directors includes aspects such as background, experience, gender, race, ethnicity, and representation from various industries. With this diversity, the board of directors will be more reflective of the wider society, and multiple approaches to issues will emerge. This prevents the formation of a homogeneous group of thinkers, which can lead to decision-making paralysis due to a lack of different viewpoints. In addition, seeking independent board members means looking for people who have the ability to think critically, are not afraid to voice different views, and are not swayed by personal or group interests.

#### 4. CONCLUSION

The conclusion from the above research is that the implementation of Good Corporate Governance (GCG) in Indonesia has a very important role in controlling companies and creating a balance between stakeholders. The practice of holding multiple positions on the board of directors can jeopardize GCG principles, such as accountability, transparency and independence. The negative impact of multiple positions can lead to conflicts of interest, lack of transparency, and lack of focus and effective performance from each company. Therefore, it is important for companies to separate positions, increase independent oversight, increase transparency and accountability, and encourage diversity and independence on the board of directors to ensure good and sustainable GCG implementation. This will help the company minimize the risk of errors and losses, as well as build a strong reputation as a company that is responsible, transparent and with integrity in the eyes of the public and stakeholders.

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