International Journal of Social Science and Human Research

ISSN (print): 2644-0679, ISSN (online): 2644-0695

Volume 08 Issue 04 April 2025

DOI: 10.47191/ijsshr/v8-i4-24, Impact factor- 8.007

Page No: 2169 - 2173

Director's Accountability in A Limited Liability Company in Relation to Carrying Out His Duties and Authorities

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ABSTRACT: Director accountability in a limited liability company (PT) is a vital aspect of modern corporate governance. Directors are not only responsible for managing the company effectively and efficiently, but also for ensuring compliance with legal regulations and safeguarding the interests of shareholders. This study aims to examine the implementation and challenges in carrying out the duties and authorities of PT directors, with a focus on the legal framework and management practices applied.

This study uses a qualitative approach by analyzing related literature, laws and regulations, and case studies to identify the roles and responsibilities inherent in directors. The main findings show that directors have broad responsibilities, including in terms of strategic decision-making, risk management, and compliance with applicable regulations. The use of good corporate governance principles is key to ensuring that directors carry out their duties with integrity and transparency, and are able to face complex challenges in a dynamic business environment.

By considering the role of internal and external supervision, this study also identifies several supporting factors and obstacles in the implementation of director accountability. The implication of this study is the importance of strengthening the company's internal control mechanisms and promoting a culture of compliance and accountability at all levels of the organization.

Companies in a country, whether local companies, foreign-local mixtures, or foreign companies that run their businesses in a particular country have a role in the economic development of that country. These companies have various forms and types, and operate in all areas of community life. Some of these companies are based in the country where the company was founded, some are branches of other countries that open/expand their businesses in other countries. In Indonesia, there are Limited Liability Companies, CVs, Associations, Firms, and Civil Partnerships. These companies are run by a management that regulates the running of the business itself, regardless of whether it is a large, medium or small company. In running its business, the company needs humans to operate because the company itself is a virtual or abstract form so that in operations humans are still needed for that.

Individuals or people who run a business are people who are responsible for the operational activities of the Company. It has been explained above that Companies can be established in various forms and types. In Indonesia, we know 2 (two) types; legal entities and business entities. Both types of businesses are managed by individuals who are responsible for the running of the Company.

How far is the individual responsible in running his business. If he is the owner himself or he shares with his partner or he only works in the Company, or he only invests? In a limited liability company, the person responsible for the business operations is one or several directors.

What the researcher will examine is the responsibility of a director for his actions in carrying out his work in a limited company.

KEYWORDS: accountability, director, limited liability company

INTRODUCTION

In the era of globalization and ever-growing business complexity, the role and responsibilities of directors in a limited liability company (PT) play a central role that cannot be ignored. As the highest leader in the corporate structure, directors have a great responsibility to manage the company efficiently, transparently, and in accordance with the principles of good corporate governance. This responsibility not only involves making strategic decisions, but also ensuring compliance with various applicable legal regulations and protecting the interests of shareholders and other related parties.

The accountability of directors in a limited liability company (PT) is one of the fundamental aspects of complex modern corporate governance. Directors, as the parties with the highest authority in strategic and operational decision-making, play a vital role in managing risk, maintaining compliance, and promoting the sustainability and growth of the company. This responsibility is not only related to formal legal obligations, but also includes dimensions of ethics, transparency, and the long-term success of the company.

The role of directors in a PT is not only limited to the function of supervision and strategic decision-making, but also includes moral and fiduciary responsibilities towards the company, shareholders, and other related parties. In this context, the Limited Liability Company Law No. 40 of 2007 in Indonesia provides a legal framework that strictly regulates the rights, obligations, and oversight mechanisms for directors. This regulation aims to ensure that the management of the company is carried out with the principles of prudence, honesty, and high professionalism.

In addition to the legal aspect, good corporate governance practices are the foundation for directors to carry out their duties and authorities properly. Principles such as accountability, independence, transparency, and fairness are the main guidelines in managing a company effectively. The implementation of good corporate governance not only results in more efficient management, but also builds trust from stakeholders in the company.

However, the challenges in carrying out the responsibilities of directors cannot be ignored. The rapidly changing business environment, dynamic regulatory changes, and pressure from various stakeholders often put directors at the forefront of facing risks and making strategic decisions. Therefore, the ability of directors to manage risks appropriately and respond to changes in the external environment is crucial in determining the long-term success of the company.

This study aims to explore more deeply the dynamics of director accountability in PT, with a particular focus on the implementation of best practices in corporate governance and an in-depth analysis of the challenges and opportunities faced. Through a qualitative approach that includes literature analysis, case studies, and interviews with industry practitioners, this study is expected to provide deeper insights into how directors can carry out their roles effectively and responsibly amidst the dynamics of modern business.

METHOD

This study combines normative and qualitative approaches to explore and analyze the accountability practices of directors in carrying out their duties and authorities in limited liability companies (PT).

1. Normative Analysis
   a. Document Study: An in-depth analysis of the laws, regulations, and company policies governing the responsibilities and authorities of directors in PT was conducted. The documents analyzed include Law No. 40 of 2007 on Limited Liability Companies, stock exchange regulations (if relevant), company code of ethics, corporate governance policies, and other internal documents.
   b. Normative Evaluation: Evaluation is conducted against the ethical standards and legal norms set out in these documents. The focus is on aspects such as fiduciary obligations, accountability, transparency, independence, and compliance with applicable laws and regulations.
2. Data analysis
   a. Qualitative Analysis: Qualitative data from case studies and interviews will be analyzed using a thematic analysis approach. This analysis aims to identify patterns, key themes, and relationships between variables that influence director accountability practices.
   b. Integration of Results: The results of the qualitative analysis will be integrated with the findings from the normative analysis to provide a comprehensive understanding of the extent to which existing practices comply with ethical and legal norms, as well as to suggest recommendations for improvements in corporate governance.

This combination of normative and qualitative approaches was chosen to gain a deep and diverse understanding of how directors in limited companies carry out their responsibilities in the context of corporate governance. By combining a rigorous normative evaluation with an in-depth case analysis, this study is expected to make a significant contribution to the literature on corporate governance and director accountability.

RESULTS AND DISCUSSION

Director's Responsibilities in Company Management

Directors are required to be fully responsible for the management of the company for the interests and objectives of the Company, and to represent the Company, both inside and outside the Court. Directors must carry out their duties in good faith and with full responsibility for the interests and business of the Company. The responsibility of directors is basically based on 2 (two) important things, namely responsibility due to the duties and positions given to them by the Company (fiduciary duty) and things that refer to the ability and caution in acting (duty of skill and care), both of which require directors to act carefully and with good faith. Responsibility means an individual's obligation to carry out the activities assigned to him as well as possible according to his abilities[1]. The director's responsibilities are differentiated in[2]:

1. Internal responsibilities, which include the duties and responsibilities of the Company's directors and the Company's shareholders.
2. External liability, which relates to the duties and responsibilities of directors to third parties who have a direct or indirect legal relationship with the Company. Directors can be sued personally to the District Court if the Company suffers losses caused by their errors and negligence. Likewise, in the case of bankruptcy that occurs due to the director's error or negligence and the Company's assets are insufficient to cover the losses due to the bankruptcy, then each member of the director is jointly and severally liable for the losses[3]. In the event of bankruptcy of the Company, then the director is not a priori personally responsible for the Company, but on the contrary the director must be free from responsibility for the bankruptcy of the PT. The responsibility of the director whose company is bankrupt is in principle the same as the responsibility of the director whose company is not bankrupt.

The bankruptcy of the Company, either directly or indirectly, will have legal consequences for its management, especially for the directors of the Company. There are many issues regarding the legal consequences arising from the decision regarding the bankruptcy of the Company, one of which is regarding the extent of responsibility for the bankruptcy of the Company, whether the legal entity itself will bear the responsibility or the organs of the Company in this case the directors will be personally responsible. In principle, the director is not personally responsible for actions carried out on behalf of the Company based on the authority he has under the Company's Articles of Association.

This is because the director's actions are seen as the actions of the Company which is a legal subject. However, there are several things that the director can be held personally responsible for in the bankruptcy of the Company. Article 97 paragraph (3) and paragraph (4) regulates the director's responsibility for losses to the Company arising from negligence in carrying out the duties of managing the Company, which can be classified as follows:

1. The board of directors is fully responsible personally

   The members of the board of directors are fully personally responsible for any losses experienced by the Company if :

a. Guilty;

b. Neglecting to carry out his duties in carrying out the management of the Company.

   As explained, in carrying out the management of the Company, the members of the board of directors are required to do so in good faith. If the members of the board of directors are negligent in carrying out their obligations and violate what is prohibited in management, and the negligence or violation causes losses to the Company, then the members of the board of directors are fully responsible personally for the losses of the Company.

2. The members of the board of directors are jointly and severally liable for the Company's losses. In the case where the board of directors consists of 2 (two) or more people, then Article 97 paragraph (4) enforces the principle of implementing joint liability. Based on Article 97 paragraph (4), thus if the board of directors is negligent or violates his/her obligation to manage the Company in good faith and with full responsibility, then each board of directors shall bear joint liability for the losses experienced by the Company. The implementation of joint liability for directors in Indonesia was only known after the enactment of the 2007 UUPT.

   Previously, both in the Commercial Code and the 1995 UUPT, what was enforced was the principle of personal liability which depended on the factor of who the perpetrator was who made the mistake, negligence or violation, then the legal responsibility was only borne by the board of directors who made the mistake. The other board of directors were not involved jointly and severally. Apart from being able to prove otherwise. In carrying out their duties to manage the Company, the board of directors may not receive benefits for themselves. This means that the interests of the Company must come first.

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[1] Winardi, Principles of Management, Bandung, Alumni, 1983, p. 144.

[2] Ahmad Yani and Gunawan Widjaja, Series Understanding Limited Liability Companies Legal Risks of Owners, Directors, & Commissioners, (Jakarta: PT Forum Sahabat, 2008), p. 112

[3] Frans Satrio Wicaksono, Responsibilities of Shareholders, Directors, and Commissioners of Limited Liability Companies (PT), (Jakarta: Visimedia, 2009), p. 119.

The responsibility to manage the Company that is assigned to the board of directors cannot possibly be carried out by the board of directors alone. In many cases, all the work of the board of directors is delegated to its employees on the basis of the power of attorney from the board of directors. This means that it is impossible for there to be employees without the board of directors and it is impossible for the board of directors to carry out their duties without employees. Therefore, there is a fiduciary relationship between the board of directors and employees, which requires each other[1]. In the theory of PT regarding the obligations of the Company's directors, it is believed that the Company's directors have 2 (two) types of obligations, namely obligations based on statutory duties and obligations based on fiduciary duties[2].

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The results of the study show that directors in limited liability companies (PT) have broad responsibilities in managing the company. Specifically, they are responsible for making strategic decisions that lead to achieving the company's goals, running day-to-day operations efficiently, and ensuring compliance with all applicable laws and regulations.

Inhibiting and Supporting Factors in the Implementation of Responsibility :

a. Inhibiting Factors: The research identified several factors that act as barriers to the effective implementation of director responsibility. These factors include high regulatory complexity, intense market pressures, and lack of resources and competencies within the organization.
b. Supporting Factors: On the other hand, supporting factors in the implementation of director responsibility include the adoption of good corporate governance practices, support from a strong board of directors, and the organization's commitment to comply with ethical and sustainability principles.
c. Best Practices in Responsibility Management.

Based on the research results, best practices in managing director liability include:

a. Code of Ethics Implementation: Companies that successfully integrate a clear and comprehensive code of ethics are able to guide the behavior of directors in making ethical and responsible decisions.
b. Strengthening Corporate Governance: Implementing a good corporate governance structure with strict oversight from the board of directors can increase accountability and transparency in company operations.

DISCUSSION

A director can be held accountable if he violates the provisions that have been provided in the Company's Articles of Association and if it can be proven that the actions taken by the director were on his own initiative and for the benefit of himself or a certain group which he knew would cause losses to the Company.

The actions referred to above have been explained previously, so that directors who violate can be held accountable up to the director himself, not only limited to his position.

The selection of directors is also very crucial considering that managing a company, whether large or small, requires high integrity, good judgment, skills in running a business, caution in acting and good faith in exercising power and events. The selection of directors is carried out by the General Meeting of Shareholders of the Company. Directors can be appointed as one or more.

In order to minimize the risk of mismanagement by the director, the Company can carry out supervision through the commissioner who is responsible for running the business internally.

The directors' liability has been regulated in legislation, but sometimes the actions carried out by the directors which turn out to be detrimental to the Company are not explicitly explained in the regulations, therefore, it is hoped that this research will open up broader insights regarding this matter.

The discussion of the results of this study highlights the importance of effective management of director responsibilities in supporting the growth and sustainability of the company. With the ever-changing external conditions and high expectations from stakeholders, directors are required to have adequate qualifications and knowledge in managing risks and making the right decisions.

The role of the board of directors is also recognized as a key element in supporting good corporate governance practices. By exercising careful oversight and providing clear strategic direction, the board of directors can help balance the interests of various parties and ensure that the company operates in accordance with established standards.

In addition, the results of this study provide insight into the challenges and opportunities faced by directors in carrying out their duties. By understanding the inhibiting and supporting factors, companies can develop more effective strategies to improve long-term performance and sustainability.

[1] Try Widiyono, Directors of Limited Liability Companies (Banks and Companies) Existence, Duties, Authorities and Responsibilities Based on Legal Doctrine and UUPT, Jakarta: Ghalia Indonesia, 2005, p. 40.

[2] Dennis Keenan and Josephine Bisacre, Smith and Keenan's, Company Law For Students, Financial Times, Pitman Publishing, 1999, p. 317

CONCLUSION

This study has investigated the roles and responsibilities of directors in carrying out their duties and authorities in limited liability companies (PT). Based on the findings obtained, several conclusions can be drawn:

Director Responsibilities: Directors have broad responsibilities in managing the company, including strategic decision-making, operational oversight, and ensuring compliance with applicable regulations. These responsibilities include not only managerial aspects, but also ethical and legal obligations that must be adhered to.

The Importance of Good Corporate Governance: Implementation of good corporate governance practices is essential to support the effectiveness of directors in carrying out their responsibilities. A strong governance structure, with effective oversight from the board of directors, can help reduce risk and increase transparency and accountability in corporate decisionmaking.

Challenges and Opportunities: Directors are faced with a variety of challenges, such as high regulatory complexity and intense market pressures. However, there are also opportunities to develop innovative strategies in carrying out their duties, such as adopting technology to improve operational efficiency and data-driven decision-making.

Recommendations for the Future: Based on these findings, several recommendations can be put forward to strengthen director accountability practices in PT, including:

Improving training and development of directors' competencies in corporate governance and risk management.

Strengthening the role and function of the board of directors in supervising and providing strategic direction.

Encourage the adoption of adequate information technology to support better decision making and more effective risk management.

This conclusion emphasizes the importance of the role of directors in ensuring the sustainability and sustainable growth of the company. By integrating best practices in corporate governance and facing challenges with the right strategies, directors can play a key role in achieving organizational goals and maintaining trust from various stakeholders.

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