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Enactment of corporate laws for building legal environment and their effectiveness

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Abstract

This study investigates the current legal environment of Indonesia in the light of new enactment of laws and effectiveness of their enforcement. The SPSS software was used to carry out regression analysis. The findings show a positive relationship between legal environment and legal effectiveness, however the enactment of new laws was found to be unrelated and insignificant due to significant uncertainties and past legacy still present in the Indonesian law. In conclusion, it is time for creating public awareness to understand what corporate activities could be harmful to them.

Keywords: Corporate Crime, Liability, Legal Environment.

La promulgación de leyes corporativas para la construcción de un entorno legal y su efectividad

Resumen

Este estudio investiga el entorno legal actual de Indonesia a la luz de la nueva promulgación de leyes y la efectividad de su aplicación. El software SPSS se utilizó para realizar análisis de regresión. Los hallazgos muestran una relación positiva entre el entorno legal y la efectividad legal, sin embargo, se encontró que la promulgación de nuevas leyes no está relacionada y es insignificante debido a las importantes incertidumbres y el legado pasado que todavía está presente en la ley indonesia. En conclusión, es hora de crear conciencia pública para comprender qué actividades corporativas podrían serles perjudiciales.

Palabras clave: Delitos corporativos, Responsabilidad, Entorno legal.

1. INTRODUCTION

Indonesia has more than 60 laws containing corporate criminal liability on issues related to environmental, money laundering, corruption, mining, spatial planning, forestry, etc. These laws are classified under four categories:

Environmental Law, Anti-Corruption Law, Insurance Law and Anti Money Laundering Law. These laws deal with cases related to corporate criminal liability too. However, unlike other countries where

corporate entities are prosecuted for criminal misconduct of their officers and employees and higher penalties are imposed, the Indonesian criminal code does not hold corporate entities responsible for frauds and corporate crime committed. Under the Indonesian Criminal Code, it is the individuals who commit criminal offenses. The law enforcement agencies in Indonesia do not claim any charges against corporate entities and bring charges against individuals who are involved in criminal acts (Chance, 2016).

In Indonesia there exists various kinds of corporate crimes such as misleading advertisements, found daily in the newspapers, magazines and private broadcasting; industrial pollution caused by disposal of dangerous chemical solutions from industry; contaminated food products and hazardous cosmetics that are dangerous to the health and safety of human beings; breaches of minimum wages under the Employment Act, and like (Chance, 2016). As for such types of corporate crimes, hardly any corporates have been taken to the Criminal Court, and there appears to be no sanction against them. The criminal prosecution of environmental pollution relating to dangerous chemical disposal occurred once in 1989 and ended in a verdict of not guilty, which perhaps was the reason for sending twenty judges abroad to learn how to assess pollution cases (Sidharta, 2017).

Similarly, one case of poisonous biscuits causing thirty persons to die in 1989 was never put to trial under corporate crime under the Dangerous Food and Cosmetic Products Act since it was claimed that there was no direct evidence of what exactly caused death. In short,

the cases of charging the corporation as a perpetrator in a trial are very rare in Indonesia (Ahmed, Umrani, Qureshi & Sarmad, 2018; Ali & Haseeb, 2019; Haseeb, Abidin, Hye, & Hartani, 2018; Haseeb., 2019; Suryanto, Haseeb, & Hartani, 2018).

Though the Indonesian Act no.7/1955 related to criminal responsibility of corporations has existed in practice the Criminal Court never recognized nor applied the legislation. There has been a tendency to assume that only human beings who handle and organize a corporation can be viewed as offenders against the stipulations. The Criminal Code to assumes that an offense can only be committed by a natural person; therefore, a corporation which is not a natural person cannot legally be seen as an object of criminal responsibility. However, attention has been drawn by such studies Clinard & Yeager (1980) that state that a corporate crime is any act committed by a corporation that is punishable under administrative, civil or criminal law; or that “corporate crimes are the offenses committed by corporate officials for their corporation and the offenses of the corporation itself” (Clinard & Quinney, 1973: 43).

Neither have criminologists and other experts paid any attention to such whistleblowing exercises. A study of over 100 Indonesian criminology books published between 1970-1985 shows that none of them has discussed corporate crime in depth. Besides, no conventions in professional circles on corporate crime have been organized except one in November 1989 at Semarang. This study was necessitated by these initiatives being taken by Indonesia to improve its legal

framework on corporate criminal liability. For this purpose, this study first investigated the conditions that led to the enactment of new corporate laws in Indonesia. The study collected evidence whether the new laws have succeeded in building a legal environment and attempted to measure the legal effect of these new initiatives in fixing the corporate criminal liability, unlike in the previous legal system, the liability was wholly put upon the individuals.

1.1. Enactment of new laws

In May 2017, the Supreme Court of Indonesia made a significant move to mark a new development in the Indonesian corporate criminal liability legislation, by enacting its Regulation Number 13 of 2016 regarding Manner and Procedure for the Handling of Crimes Committed by Corporations (Regulation 13/2016). Consisting of 37 articles, this Regulation 13/2016 provides law enforcers guidance in handling corporate crime cases. It also strengthens and complements the various existing regulations concerning corporate crimes. Regulation 3/12016 was officially signed by the Chairman of the Supreme Court on December 21, 2016, which aims to curb crimes committed by corporations. Whilst corporate criminal liability has always been a concept in Indonesian criminal law, unlike other corporate laws, this new law includes all offenses committed by person(s) on behalf of the corporation, either severally or jointly, inside or outside of the corporate environment, directly or indirectly (Behr et al., 2017).

1.2. Corporate Criminal Liability in Indonesia

Supreme Court Regulation No. 13 contains provisions on corporate liability in all types of criminal acts if such acts are done for and on behalf of the corporation. Article 3 of Regulation No 13/2016 and Article 20 Anti-Corruption Act define corporate crime as committed by employees of the corporation or those outsourcing agencies that work on behalf of a corporation such as agents, attorneys, brokers and subsidiaries (Coyne, 2016). Within the scope of the corporate crime, the Supreme Court regulations enlist all such illegal act committed that lead to losses to the state revenues. A corporate entity is thus said to have incurred a criminal liability when an offense is committed on its behalf or committed by an employee and that the said crime falls within the scope of the corporate entity's activities (Chidoko and Mashavira, 2014; Salvioni and Gennari, 2014; Razek, 2014; Coyne, 2016; Binnie & Ramasastry, 2016).

As said earlier, any offense or a misact amounts to a corporate crime if the corporate entity receives profit or benefit from the crime; or the crime is committed in its interest. Secondly, it also amounts to a crime if the corporate entity allows the crime to occur or it fails to prevent it all such cases of corporate crimes are uniformly handled under any of the four laws prevailing in Indonesia: Environmental Law, AntiCorruption Law, Insurance Law and Anti Money Laundering Law.

1.3. Problem Statement

With the enactment of the new law, Regulation 13/2016, corporation is now legally considered to be the doer of the crime and is designated as a legal subject on whom criminal responsibility shall be charged. This action was necessitated since there was inconsistency in both legislation and its enforcement. However, in spite of the enactment of new laws, there seem to be issues related to the creation of a legal environment in Indonesia. For instance, there is no specific judicial body dedicated to investigating and prosecuting corporate entities in Indonesia. All corporate criminal investigations are still conducted by the same National Police of the Republic of Indonesia. In a few cases, investigations can also be carried out by internal investigators of the relevant department but only if the crime is adequately defined and attributed to departments such as environment, taxation, anti-corruption and financial sector.

2. METHODOLOGY

2.1. Sampling and Population

Data was collected from 360 respondents comprising lawyers, brokers, government and corporate officials, judges and media personnel from multi-locations such as Surabaya, Medan, Makassar, Batam and Jakarta.

2.2. Research Hypotheses

This study investigated corporate criminal liability and factors such as enactment of new corporate laws, legal environment and legal effectiveness as variables of this study. The study formulated the following hypotheses:

H1: The enactment of pertinent laws (types of laws) will affect the legal environment.

H2: The legal environment will affect legal effectiveness.

3. TESTING, DATA ANALYSIS AND RESULTS

Various statistical methods were used to analyze the data collected from the respondents including SPSS. All the items and variables were coded for the obtaining statistical results. Simultaneously responses from the survey and questionnaires were tested through frequency distribution, descriptive statistics and correlation analysis by using the reliability tests. Frequency distributions were obtained for all the variables. Pearson Correlation Analysis method was used to examine the relationship between independent variables and dependent variables to test the hypotheses with the acceptable Cronbach Alpha values as 0.60 and above. Therefore, the items with Cronbach Alpha values less than 0.59 were eliminated from further analysis process.

3.1. Reliability Test

Right at the outset a reliability test was conducted on independent and dependent variables which are: Legal Effectiveness (IV) and Legal Environment and Enactment of New Laws (DV). The Cronbach’s alpha values of the study variables are exhibited in Table 1. As mentioned earlier, the alpha coefficient of each variable exceeding 0.60 was only included. As a result, Cronbach’s alpha for the Legal Effectiveness (LEF) variable is (0.825); for Legal Environment (LEV) variable (0.697); and finally, for Enactment of New Laws (0.705).

Table 1: Reliability Coefficient of the Study Variables

Variables	Total items	No of item deleted	Alpha Coefficient
Legal effectiveness (LEF)	15	None	0.825
Legal environment (LEV)	8	None	0.697
Enactment of New Laws (EL)	6	None	0.705

3.2. Correlation Analysis

Table 2 below shows the correlation analysis of types of laws that were enacted in Indonesia in relation with legal effectiveness. Types of Laws were found not significantly correlated with legal effectiveness (-0.087). However, legal environment was more

significantly correlated with legal effectiveness (0.495) and Enactment of Law with high value equal to (0.367).

Table 2: Correlations between Variables

		Types of laws	LEF	LEV	EL
Types of laws	Pearson Correlation	1	-.087	-.034	.027
	Sig. (2-tailed)		.410	.750	.799
	N	92	92	92	92
LEF	Pearson Correlation	-.087	1	.495(**)	.367(**)
	Sig. (2-tailed)	.410	.	.000	.000
	N	92	92	92	92
LEV	Pearson Correlation	-.034	.495(**)	1	.338(**)
	Sig. (2-tailed)	.750	.000		.001
	N	92	92	92	92
EL	Pearson Correlation	.027	.367(**)	.338(**)	1
	Sig. (2-tailed)	.799	.000	.001	
	N	92	92	92	92

** Correlation is significant at the 0.01 level (2-tailed).

3.3. Regression Results

The first hypothesis of this study proposed that the enactment of pertinent laws will affect legal environment. Hence, in order to determine to what extent the laws influenced the legal environment (LEV), a regression test was conducted. Table 3 shows the results of regression test involving the Enactment of Laws as independent variable against Legal Environment as the dependent variable. The

results of regression analysis indicate an insignificant p value $p > 0.05$ (0.410). Therefore it can be concluded that Enactment of New Laws does not affect the Legal environment.

Dependent Variable: LE

Table 3: Regression analysis between Enactment of Laws and Legal Environment

Model	Unstandardized Coefficients		Standardized Coefficients		T	Sig.	
	R	R Square	B	Std. Error			Beta
1 (Constant)	.087	.008	3.708	0.151		24.484	0.000
Types of Laws			-0.072	0.087	-0.087	0.828	.410

The second hypotheses of this study proposed that legal environment would affect legal effectiveness. Hence, to determine to what extent the legal environment (IV) influenced the legal effectiveness (DV), a regression test was conducted, the results of which are shown in Table 4. The analysis indicated a significant p value $p < 0.05$ (0.001). Therefore it can be concluded that legal environment influenced the legal effectiveness and significantly contributed to the R square value. The analysis also indicated that legal environment explained about 25% ($R^2 = 0.245$) of the variance in legal effectiveness (Table 4) (Indriastuti, 2019):

Dependent Variable: LEF

Table 4: Regression analysis between Legal Environment and Legal Effectiveness

Model	Unstandardized Coefficients		Standardized Coefficients		t	Sig.	
	R	R Square	B	Std. Error	Beta	Lower Bound	Upper Bound
1 (Constant)	.495	.245	1.874	.319		.879	.000
Legal Environment			.481	.089	.495	.406	.000

Based on the regressions results, the two hypotheses stated in this study are given the following results:

Hypotheses	Results
H1: The enactment of pertinent laws (types of laws) will affect legal environment.	Rejected
H2: The legal environment will affect legal effectiveness.	Accepted

H1: The enactment of pertinent laws (types of laws) will affect legal environment.

The results of the regression analysis suggest that pertinent laws will not affect the legal environment of this study sample. The results from this study indicated insignificant (0.410; $p > 0.05$) correlation between these variables which is somewhat inconsistent with previous studies that found that such enactments affected the legal environment (Firmansyah, 2015). One possible justification for this inconsistent result may be due to the long history of crime and corruption in the Indonesian environment and most respondents might have failed to

develop trust and confidence in the new enactments of laws. Therefore, new enactment of laws does not influence the legal environment in this study (Yang et al., 2019).

H2: The legal environment will affect legal effectiveness.

The results of the Regression analysis suggest that legal environment significantly affects legal effectiveness among this study sample. The result of this study showed a significant p-value $p < 0.05$ (0.001) which proved that the legal environment influenced the legal effectiveness. The result was consistent with previous studies Chance (2016) while it is inconsistent with Jumabhoy & Tan (2017) who found a variation on legal effectiveness based on certain variables.

3.4. Implications of the Study

The results of this study provide a major contribution to knowledge. First, it provides clear evidence that corporate criminal liability can be understood through variables such as the enactment of new laws, legal environment and legal effectiveness. There has been very little empirical work to verify or refute these presumptions. Secondly, this study analyzed these presumptions hypothetically in the light of the key variables of this study. From the findings, it has been evident that there exists a positive relationship between legal environment and legal effectiveness; though the enactment of new laws may not have that much significance to the legal environment. Therefore, these findings suggest that the lawmakers and the

government must consider the factors that might lead to the non-performance of a few Laws. The government may emphasize upon educating people and developing awareness about the significance of new laws among the corporate personnel and increase its chances of success (Hassan et al., 2019) .

4. CONCLUSION

Hence there is still inconsistency in the legal system concerning the criminal responsibility of a corporation. Millions of people depend on corporate activities: trillions of rupiah in income stems from a variety of corporate activities including industry, electronic goods, medicine, food and drink, cosmetics, wood, clothing, plantation products, cars, construction and the banking sector. Corporations are, therefore, a large source of employment and seen to be of positive help to the community. But people never think that certain kinds of medicine could be dangerous to their life, or certain food products should be harmful to their health, or a certain make of car could be hazardous since very often the cause of traffic accidents was seen to be the driver and not the car. Moreover, employees never care about the working conditions in factories which can be very harmful to their lives.

In short, it is time for creating public awareness to understand what corporate activities could be harmful to them. Even the

government must take cognizance of such activities and frame laws to prevent such acts. Efforts must be made more strongly to fix the criminal liability of corporations rather than treating offenses as committed by an individual. Besides, there is also a lack of attention by criminologists and criminal law scholars in developing theoretical approaches to the criminal responsibility of a corporation. This must also be given due priority in resolving the issues.

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