ASSESSMENT 2: CASE ANALYSIS (INDIVIDUAL)

JANUARY 2026 SEMESTER

SUBJECT CODE	:	**MLM713**
SUBJECT TITLE	:	**CORPORATE EHICS, GOVERANCE AND SUSTAINABILITY**
LEVEL	:	**MASTER DEGREE**

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INTRODUCTION

In the contemporary business environment, organizations face strong pressure to compete, innovate, and maximize profit while at the same time respecting laws, ethics, and the rights of many stakeholders. Two important pillars that guide responsible business behaviour are business ethics and legal frameworks. These pillars are not only about obeying rules; they shape the long-term sustainability and reputation of a company. When firms ignore ethics or law, they may gain short-term financial benefits, but they create serious risks related to reputation, legal sanctions, and loss of trust.

This assignment consists of two main situations. **Situation One** focuses on how business ethics and legal frameworks are designed to protect consumer rights and privacy and to ensure fair practices in marketing and pricing. It asks how these two elements help sustain business in the long term and what strategies can be applied to strengthen ethical behaviour. **Situation Two** focuses on a case study of PT DEF, a large multinational mining company operating in Indonesia, which has been accused of violating several principles of good corporate governance. The task is to analyse the weaknesses in PT DEF's governance practices and to propose best practice solutions that can uphold good corporate governance and support ethical and sustainable business.

1.0 SITUATION ONE: BUSINESS ETHICS AND LEGAL FRAMEWORKS

1.1 Concept of Business Ethics

Business ethics refers to the application of moral principles and values in business decision making and behaviour. It involves distinguishing between what is right and wrong, fair and unfair, just and unjust, in all aspects of organizational activities, including marketing, pricing, human resources, finance, and operations. Ethical business conduct means more than simply avoiding illegal actions;

it includes honesty, transparency, respect for stakeholders, and a genuine concern for the social and environmental impacts of business decisions (Saleh et al., 2025).

In the context of consumer relationships, business ethics covers issues such as truthful advertising, non-deceptive promotions, fair treatment of vulnerable customers, non-discrimination, and responsible use of consumer data. For example, an ethical company will not mislead consumers about the quality or safety of a product, nor will it exploit information to which consumers have not consented. Ethical behaviour also includes internal aspects, such as avoiding bribery and corruption, preventing conflicts of interest, and maintaining integrity in financial reporting.

Ethics in business is often supported by formal instruments such as codes of ethics, corporate values statements, and internal policies. However, the real test of ethics is how managers and employees behave in practice, especially when facing pressure to meet sales targets or financial goals. A strong ethical culture encourages employees to speak up about wrongdoing, supports fair decision-making processes, and aligns incentives with long-term value creation rather than short-term gains.

1.2 Concept of Legal Frameworks in Business

Legal frameworks in business are the collection of laws, regulations, and government policies that regulate how companies may operate. These frameworks include contract law, company law, consumer protection law, competition law, data protection and privacy law, labour law, environmental law, and sector-specific regulations. While ethics are based on moral values, legal frameworks are enforceable rules. Violating them can lead to fines, licences being revoked, civil litigation, or even criminal penalties (Yang, 2023).

In relation to consumer rights and privacy, legal frameworks typically address areas such as:

- The right to truthful information about products and services.
- The right to fair contractual terms and protection from unfair contract clauses.
- The right to privacy and control over personal data.
- The prohibition of false or misleading advertising.
- Rules against anti-competitive practices such as price-fixing and collusion.

Legal frameworks set minimum standards. An ethical company will usually go beyond the minimum and adopt best practices that show respect for consumers and society. However, the law is still a critical foundation because it creates clear obligations and consequences. It also helps level the playing field so that companies that follow the law are not unfairly disadvantaged by competitors who use unethical or illegal tactics.

1.3 How Ethics and Law Sustain Business in the Long Term

Business ethics and legal compliance are central to long-term sustainability for several reasons (Ellitan et al., n.d.).

First, they build and protect trust. Consumers prefer to buy from companies they see as honest, reliable, and fair. When a company repeatedly respects consumer rights, protects privacy, and prices its products transparently, customers feel confident and remain loyal. This trust becomes a valuable intangible asset. On the other hand, scandals involving data breaches, deceptive marketing, or exploitative pricing can quickly destroy years of carefully built reputation.

Second, ethical and lawful behaviour reduces risk. Companies that ignore laws or ethical norms face significant risks: lawsuits from consumers or competitors, regulatory investigations, financial penalties, and even criminal charges against executives. These events are costly not only in money but also in time, management attention, and lost opportunities. In addition, negative publicity from legal violations can lead to consumer boycotts or the loss of key business partners and investors.

Third, ethics and legal compliance support stable relationships with stakeholders. Besides consumers, businesses must interact with employees, suppliers, regulators, and local communities. When the company acts with integrity, these stakeholders are more willing to cooperate, negotiate, and support the firm. Employees are more motivated and committed when they believe their employer acts ethically, which improves productivity and reduces staff turnover. Regulators may show more flexibility and trust if a company consistently demonstrates compliance and transparency.

Fourth, in a global and digitalized market, ethical and legal standards support competitive advantage. Through the internet and social media, consumers can easily compare prices, read reviews, and share experiences. Unethical practices are more likely to be exposed. Companies that are proactive in data protection, clear in their terms and conditions, and honest in their marketing are more likely to be recommended by customers and influencers. Over time, these firms attract more loyal customers and can charge fair prices without resorting to hidden fees or manipulative strategies.

Fifth, ethics and law encourage innovation aligned with society's values. For example, regulations on data privacy push companies to develop more secure systems and transparent consent mechanisms. Environmental regulations stimulate innovation in cleaner technologies and sustainable products. Ethical standards discourage businesses from relying on exploitation and instead promote value creation that benefits both the company and society. This alignment helps ensure that the company can operate successfully in the future as social expectations and regulations become stricter.

1.4 Strategies and Approaches to Strengthen Business Ethics Sustainability

To sustain ethical practices and compliance over the long term, companies need more than a written code; they require integrated strategies. Some of the best approaches include:

1. Develop and Communicate a Strong Ethical Culture

   The starting point is clear ethical values supported by top management. Leaders must show by their behaviour that integrity and fairness are non-negotiable. This includes being honest in internal communications, accepting responsibility for mistakes, and not rewarding unethical success. Values and codes of ethics should be communicated regularly through training sessions, internal campaigns, and leadership messages.

2. Integrate Ethics and Law into Strategy and Daily Operations

   Business plans, marketing strategies, and pricing decisions should always be reviewed from both an ethical and legal perspective. Before launching a new product or campaign, managers should ask: Is this truthful? Is it fair to consumers? Does it comply with all relevant laws and guidelines? Legal and compliance teams should be involved early in strategic discussions, not only at the end to "check the box".

3. Design Fair and Transparent Marketing and Pricing Practices

   Companies should avoid misleading statements, hidden charges, and manipulative tactics. Prices and terms should be clear and easy to understand. Promotions must be genuine, not designed to trick customers. For example, if a discount is advertised, the original price and conditions should be clearly shown. In digital marketing, online reviews should not be manipulated, and influencers should disclose paid partnerships.

4. Protect Consumer Data and Privacy
   In the digital era, collecting and using consumer data is common. To act ethically, businesses should obtain informed consent, collect only the data they truly need, store data securely, and allow consumers to access or delete their information where possible. Data breaches should be reported transparently, and affected customers should receive support. Privacy should be treated as a core consumer right, not only as a technical problem.

5. Establish Strong Internal Controls and Compliance Systems
   Internal controls are procedures and mechanisms that prevent and detect unethical or illegal acts. For instance, companies can implement approval processes for marketing materials, regular audits of pricing practices, and monitoring of data access. Compliance departments should have enough authority and independence to investigate issues and recommend corrective actions. Whistleblowing systems can enable employees to report unethical practices confidentially without fear of retaliation.

6. Training and Capacity Building
   Regular training for employees at all levels is essential. Training should cover basic legal obligations (consumer protection, advertising rules, privacy, competition law) and ethical dilemmas they might face in their roles. Real examples, case studies, and role-plays help employees understand how to apply principles in practice. New recruits should receive ethics training as part of their orientation.

7. Incentives Aligned with Ethical Behaviour
   If rewards are based only on short-term sales or profits, employees may feel pressure to ignore ethics. Companies should design performance evaluations and bonus systems that also recognise adherence to ethical standards, quality of service, and customer satisfaction.

Managers who avoid legal risks and maintain high ethical standards should be valued, even if their results are slightly lower in the short term.

8. Stakeholder Engagement and Feedback
   Companies should create channels for consumers and other stakeholders to give feedback or raise complaints easily. Handling complaints fairly and quickly shows respect and helps identify problems early. Customer surveys and community consultations can also provide insight into how the company is perceived and where ethical improvements are needed.

9. Transparency and Reporting
   Voluntarily sharing information about business practices, data protection measures, and ethical initiatives can strengthen trust. Some companies issue sustainability or ethics reports that describe their commitments, policies, and performance. Being open about challenges and areas for improvement demonstrates seriousness and invites constructive dialogue.

10. Continuous Improvement
    Ethics and compliance are not static. Laws change, technology advances, and social expectations evolve. Businesses should regularly review and update their policies, training, and controls. Learning from incidents, both inside the company and in other organizations, can help prevent similar problems in the future.

By adopting these strategies, companies can embed ethics and legal compliance deeply into their daily operations and culture. This integration supports long-term sustainability by protecting reputation, reducing risks, and strengthening relationships with consumers and other stakeholders.

2.0 SITUATION TWO: PT DEF AND GOOD CORPORATE GOVERNANCE

2.1 Overview of Good Corporate Governance Principles

Good Corporate Governance (GCG) refers to the systems, principles, and processes by which a company is directed and controlled. The main goal of GCG is to ensure that the company is managed in a way that is transparent, accountable, fair, and responsible to all its stakeholders, including shareholders, employees, customers, creditors, and the wider community.

Although specific formulations vary, common principles of GCG include:

- Transparency – Providing accurate, timely, and clear information about the company's activities, performance, and risks.
- Accountability – Clearly defining roles and responsibilities of the board of directors and management, and ensuring that they are accountable for their decisions and actions.
- Responsibility – Ensuring compliance with laws and regulations, and taking responsibility for the social and environmental impacts of the company's activities.
- Independence – Establishing governance structures, such as independent directors and committees, that can make decisions free from undue influence or conflicts of interest.
- Fairness – Treating all stakeholders, particularly shareholders and employees, fairly and without discrimination.

In sectors like mining, good governance is particularly important because operations can have severe environmental and social impacts, and often involve complex relationships with governments and local communities.

3.2 Background of PT DEF

PT DEF is a large multinational mining company operating in Indonesia. It is one of the largest producers of copper, with mineral deposits that also contain significant amounts of gold. The company's first Contract of Work (Kontrak Karya) with the Government of Indonesia was signed in April 1967. Exploration activities began later that year at the Ertsberg area, leading to large-scale construction from May 1970. The first export of copper concentrate took place in December 1972.

In 1991, PT DEF signed a second Contract of Work, granting it the right to continue operations for at least another 30 years, extending its concession rights in Papua until 2021. Copper products from the company's mining complex in Papua, as well as copper products from a smelting facility in Gresik, in which PT DEF holds a 25% ownership stake, are critical raw materials for global communications, transportation, electronics, and other key industries.

Despite this economic importance, PT DEF has been accused of serious violations of good corporate governance principles, particularly regarding compliance with mining laws, environmental protection, human rights, fair treatment of employees, and respect for protected forest areas. These alleged violations provide a strong case study to analyse weaknesses in governance and propose improvements.

2.3 Analysis of Violations and Weaknesses

2.3.1 Contract of Work and Legal Compliance

The 2009 Mining Law (often linked to earlier legislative frameworks) required mining companies holding a Contract of Work to carry out refining and processing of minerals domestically within five years after the law's enactment (Oluwaseun Adeola Bakare et al., 2024). This requirement was intended to increase local value-added by ensuring that raw minerals are processed in Indonesia before export. For PT DEF, this meant it had a five-year period to build or ensure the operation of a smelter in Indonesia.

However, PT DEF did not comply with this requirement. The company did not construct a smelter within the specified period, even though it owned a 25% stake in an existing smelter. By ignoring this obligation, PT DEF violated both the law and the principle of responsibility in corporate governance. The law represents a clear national policy objective to develop domestic industry, and good governance would require the company to respect such laws, even if compliance required significant investment.

This failure shows a governance weakness in several ways:

- Lack of commitment by top management and the board to legal compliance as a core value.
- Possible prioritisation of short-term cost savings or bargaining leverage over long-term legitimacy in the host country.
- Inadequate internal controls and oversight mechanisms to ensure that strategic decisions align with legal requirements.

2.3.2 Environmental Pollution and Human Rights Violations

PT DEF has been accused of causing severe environmental damage in Mimika Regency, Papua. The company allegedly discharged mine waste (tailings) containing toxic substances such as mercury and cyanide into rivers, estuaries, and coastal areas. Five rivers—Aghawagon, Otomana, Ajkwa, Minajerwi, and Aimoe—were reportedly used as deposition sites for tailings(Yapis Papua, 2025).

Furthermore, hazardous liquids used in the metal separation process are said to have been released directly into natural water bodies. This behaviour is extremely dangerous because these water sources are habitats for aquatic life and are also used by local communities for drinking water, fishing, and agriculture. The pollution not only harms the environment but also threatens the health and livelihoods of local residents, raising serious human rights concerns.

From a governance perspective, these actions indicate weaknesses in the principle of responsibility and accountability. A responsible company would identify environmental risks, implement strong waste management systems, and continuously monitor environmental quality. It would also engage transparently with regulators and communities about the environmental impact of its operations. PT DEF's alleged behaviour suggests that such systems were either inadequate or not properly enforced. It also suggests that economic profit was placed above environmental protection and human welfare, contrary to the idea of sustainable business.

1.3.3 Wage, Salary, and Employee Discrimination

Another area of concern is the wage and employment practices of PT DEF. Workers in Indonesia reportedly received significantly lower wages than their counterparts in other countries for similar positions. Hourly wages for Indonesian workers ranged from USD 1.50 to USD 3.00, while in other countries workers in comparable positions might earn USD 15 to USD 35 per hour. Negotiations between workers and management over these wage disparities have apparently not reached a satisfactory outcome, with management resisting demands for improvement(Nweke & Nweke, 2024).

On top of wage issues, there are claims of discrimination in employment positions. Local Indonesian employees are often employed at the lowest levels, while foreign workers tend to hold higher-level positions. This pattern suggests a lack of commitment to fairness, diversity, and equal opportunity within the company.

These practices violate the principle of fairness in good corporate governance and undermine employee morale. Employees who feel exploited or discriminated against are less committed and more likely to engage in conflict or industrial action. Long-term sustainability requires treating workers with dignity, providing fair compensation, and offering career development opportunities for local talent. The governance structure of PT DEF appears not to have effectively addressed these labour issues.

1.3.4 Violations of Forestry and Environmental Laws

PT DEF is reported to have used a protected forest area covering 4,535.93 hectares for mining activities. This action violates Indonesian forestry laws, including Law Number 41 of 1999 and Law Number 19 of 2004 on Forestry. By using protected forest land without proper authorisation or compensation, the company caused potential non-tax state revenue losses estimated at around IDR 270 billion.

Moreover, PT DEF allegedly conducted underground mining without the necessary environmental permits. This resulted in potential state losses of around USD 22.29 million (approximately IDR 293 billion). These violations demonstrate a disregard for both environmental regulations and the economic interests of the state.

Good corporate governance requires strict compliance with all relevant laws and regulations. Violations of forestry and environmental laws show failure in risk management and oversight. The board of directors and management should ensure that all operations have the correct licences and permits, and that any use of sensitive areas, such as protected forests, is fully transparent and legally approved. The absence of such diligence reflects poorly on the company's governance culture(Yufang & Wanli, 2021a).

1.3.5 Overall Governance Weaknesses

Taken together, the issues above reveal several structural weaknesses in PT DEF's governance:

- Insufficient commitment from top leadership to align business strategy with legal and ethical requirements.
- Weak compliance and risk management functions that fail to ensure adherence to mining, environmental, labour, and forestry regulations.
- Inadequate stakeholder engagement, especially with local communities, workers, and regulators.
- Possible conflicts of interest or lack of independence in decision making, particularly if economic considerations systematically overruled legal and ethical concerns.
- Poor transparency in reporting environmental impacts, labour practices, and legal compliance to the public and stakeholders.

These weaknesses undermine PT DEF's legitimacy, damage its reputation, and threaten the long-term sustainability of its operations in Indonesia.

1.4 Best Practice Solutions to Uphold Good Governance

To address these weaknesses and move towards good corporate governance, PT DEF, or any similar company, should adopt a set of best practices across several dimensions.

1.4.1 Strengthening Legal Compliance and Risk Management

The company should establish a comprehensive compliance programme that maps all its legal obligations across mining, environmental, forestry, labour, taxation, and human rights areas. This programme should include:

- A dedicated compliance department with authority to review projects and contracts.
- Regular legal audits to identify gaps between company practices and legal requirements.
- Clear procedures for obtaining and renewing permits and licences.
- Training of managers and staff on legal requirements relevant to their functions.

Risk management systems should be improved to identify, assess, and mitigate legal and ethical risks. Environmental and social risks should be treated as seriously as technical and financial risks.

1.4.2 Enhancing Board Governance and Independence

The board of directors should be reformed, if necessary, to ensure an appropriate balance of skills, independence, and diversity. Best practices include(Lauwo et al., n.d.):

- Appointing independent directors who are not involved in day-to-day management and have no major conflicts of interest.
- Establishing specialised committees (audit and risk committee, sustainability or ESG committee, remuneration committee) to oversee key areas.
- Ensuring the board receives regular and accurate information on compliance, environmental performance, and labour issues, not only financial figures.

Independent and competent boards are better able to challenge management decisions, ask difficult questions, and insist on long-term sustainability instead of short-term profit.

1.4.3 Responsible Environmental Management

PT DEF should transform its approach to environmental management. This includes:

- Developing and implementing comprehensive environmental management plans covering waste disposal, water quality, air emissions, land rehabilitation, and biodiversity.
- Investing in technology and infrastructure to properly treat tailings and hazardous waste instead of discharging them directly into rivers or the sea.
- Conducting regular environmental impact assessments and monitoring programmes, with results shared transparently with regulators and local communities.
- Establishing emergency response plans for spills or other environmental incidents.

Responsible environmental management not only reduces harm but also builds trust with communities and regulators, helping secure the “social licence to operate”.

1.4.4 Respecting Human Rights and Engaging Communities

Mining operations often affect indigenous peoples and local communities who depend on land and water resources. Best practice requires:

- Conducting human rights impact assessments to identify and address risks to local people.
- Engaging in open and meaningful consultations with communities, including free, prior, and informed consent where appropriate.
- Establishing grievance mechanisms that allow community members to raise concerns and receive fair and timely responses.

- Investing in community development projects in areas such as health, education, infrastructure, and livelihoods, in ways that are transparent and aligned with community priorities.

By treating local communities as partners rather than obstacles, the company can reduce conflict, contribute to development, and improve its long-term prospects(Yufang & Wanli, 2021b).

1.4.5 Fair Labour Practices and Local Capacity Building

To address wage and discrimination issues, PT DEF should:

- Review its wage structures to ensure fair and competitive pay for Indonesian workers relative to responsibilities and industry standards.
- Implement non-discriminatory recruitment and promotion policies that provide real opportunities for local employees to advance to higher-level positions.
- Invest in training and capacity building for local employees in technical, managerial, and leadership skills.
- Encourage social dialogue through recognised workers' representatives and collective bargaining, where applicable.

These practices demonstrate respect for employees, improve motivation and productivity, and show commitment to the host country's development.

1.4.6 Transparency and Reporting

In line with the principle of transparency, the company should improve its reporting practices, for example by:

- Publishing annual sustainability or corporate responsibility reports detailing environmental, social, and governance performance.
- Disclosing key indicators such as emissions, waste disposal, workplace accidents, community grievances, and wage policies.
- Explaining how the company is responding to incidents, complaints, or regulatory findings.

Transparent reporting holds the company accountable and allows stakeholders to judge whether governance reforms are making a real difference.

1.4.7 Embedding Ethics into Corporate Culture

Finally, governance improvements should be supported by a strong ethical culture. This means:

- Adopting and enforcing a clear code of conduct that covers anti-corruption, environmental responsibility, human rights, and fair treatment of employees and communities.
- Providing ethics training to employees and managers.
- Creating safe channels for whistleblowing, with protection against retaliation.
- Recognising and rewarding employees who demonstrate ethical courage and responsible behaviour.

When ethics become part of the company's identity, compliance with law and respect for governance principles become natural and sustainable.

CONCLUSION

Business ethics and legal frameworks are not optional additions to business activity; they are essential elements that protect consumer rights, privacy, and fairness in marketing and pricing. In the long term, companies that respect these principles build trust, reduce risk, and strengthen their competitive position. Strategies such as creating an ethical culture, integrating law and ethics into strategy, protecting consumer data, and using fair and transparent marketing and pricing support sustainable success.

The case of PT DEF illustrates the serious consequences of ignoring good corporate governance. Violations related to legal compliance, environmental protection, human rights, labour practices, and forestry laws show deep weaknesses in governance structures and culture. To uphold good governance, PT DEF and similar firms must strengthen compliance and risk management, reform board structures, adopt responsible environmental and human rights practices, treat employees fairly, and improve transparency and ethical culture.

By implementing these best practices, businesses can move beyond narrow profit goals and operate in ways that are responsible, sustainable, and beneficial to all stakeholders. This approach not only satisfies legal and ethical expectations but also supports long-term business viability in a complex and demanding global environment.

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