

## EVALUATION OF PROFESSIONAL ETHICS AND ETHICAL THEORY IN MANAGERIAL PRACTICE GARUDA INDONESIA CASE STUDY 2019

Dito Aditya Darma Nst, Diana Trisisca, Chandra Prayoga, Siti Rana Aqilah,  
Fahradilla Aulia, Ario Anggoro, Heru Syahputra

Fakultas Sosial Dan Sains, Prodi Manajemen, Universitas Pembangunan Pancabudi

Email: [ditoaditia@dosen.pancabudi.ac.id](mailto:ditoaditia@dosen.pancabudi.ac.id) , [Dyanghl15@gmail.com](mailto:Dyanghl15@gmail.com) , [Chandraprayoga694@gmail.com](mailto:Chandraprayoga694@gmail.com) ,  
[sitiranaqilah17@gmail.com](mailto:sitiranaqilah17@gmail.com) , [Fahradilla99@gmail.com](mailto:Fahradilla99@gmail.com) , [ario.anggoro2@gmail.com](mailto:ario.anggoro2@gmail.com) , [Syahputra061201@gmail.com](mailto:Syahputra061201@gmail.com)

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### Abstract

Professional ethics is crucial for the workplace, especially for managers who play a strategic role in decision-making and organizational policies. In analyzing professional ethics for decision-making purposes, this article focuses on professional ethics theories, professional ethics principles, and a case study at PT. Garuda Indonesia. The case study discussed includes the manipulation of the 2018 financial statements related to the implementation of ethics and internal management awareness. The analysis used in this article is utilitarianism, deontology, and welfare ethics, where PT. Garuda Indonesia's management failed to meet applicable moral standards. The findings of this study indicate that integrity, responsibility, and organizational culture are important components that must be upheld in business.

**Keywords:** *Ethics, Professional Ethics, Ethical Theory*

## INTRODUCTION

### Background

Ethics is a crucial component in professional management. In the context of modern organizations, managers focus not only on *planning* , *organizing* , *actuating* , and *controlling* but also on moral aspects that influence public trust in organizational commitment. According to Robbins and Coulter (2021), management is the process of achieving organizational goals effectively and efficiently through the coordination of others. This process is closely tied to decision-making, which often gives rise to moral dilemmas. As digital technology advances and global competition intensifies, ethical challenges intensify. Many companies, facing pressure to meet *financial targets* , employ strategies to enhance their corporate image and maintain investor confidence. Ethical violations are increasingly prevalent in these circumstances. Financial statement manipulation, fraud, asset misappropriation, and misuse of consumer data are examples of phenomena that are increasingly emerging across various industries (Ferrell *et al.*, 2022).

Fictitious financial reporting in the case of financial report manipulation of PT. Garuda Indonesia in 2019 is a real example of ethical violations that can have a negative impact in the form of a decrease in integrity values, failure of transparency and accountability at the managerial level which causes losses for the company such as reputation, regulatory sanctions and loss of public trust in the company. Based on this background, this article will discuss the concepts of professional ethics in management, relevant theories and ethics, the role of managers in developing ethics, and analyze the case of PT. Garuda Indonesia using the concepts of *utilitarianism* , *deontology* , and *virtue ethics* . With this *comprehensive discussion* , management students are expected to understand the importance of implementing ethics in the future workplace.

### Formulation of the problem

The problem formulation contained in the article is as follows:

1. What is the meaning and scope of professional ethics in management?
2. What theories of professional ethics are relevant in managerial practice?
3. What is the role of managers in implementing the concept of professional ethics?

4. What is the analysis of professional ethics violations in the 2019 PT. Garuda Indonesia case?
5. What are the implications of the 2019 PT. Garuda Indonesia case for the scope of management and professional ethics practices?

### Writing purpose

The purpose of writing this article is as follows:

1. Identifying the scope of professional ethics in management
2. Identifying relevant professional ethics theories in managerial practice
3. Identifying the role of managers in applying the concept of professional ethics
4. Identifying and analyzing violations of professional ethics in the case of PT. Garuda Indonesia
5. Identifying and analyzing the implications of the 2019 PT. Garuda Indonesia case on the scope of management and professional ethics practices

### Benefits of Writing

The benefits of writing articles are as follows:

1. For management students, they can contribute to the development of knowledge in the field of professional ethics in the work environment in decision making.
2. For practitioners and managers, it can be a consideration and strategic input to improve, develop and build a work culture based on ethics and moral values .
3. For academics, it can enrich knowledge and can be used as a reference in management knowledge regarding professional ethics.
4. For organizations, it can provide an understanding of the importance of the company's internal control system in implementing ethics in maintaining the company's reputation.

## LITERATURE REVIEW

### Understanding Ethics and Professional Ethics

Moral values, principles of right and wrong, and human character and behavior in decision making can form ethics. According to Bertens (2013) in his book "Ethics" it is stated that ethics are values or morals or norms that become a guideline for an individual or group to regulate an action or behavior that functions as a benchmark to assess whether an action is morally acceptable or not. In a professional context, ethics becomes the foundation for individuals who carry out certain professions to maintain integrity and moral responsibility in their work. According to Purwanto (2018), professional ethics is defined as a set of moral principles that every individual must adhere to in order to create trust, *professionalism* , and provide high-quality services. The main principles of professional ethics are used to prevent the misuse of resources, maintain *professional integrity* , and protect the public interest. Professional ethics itself can be interpreted as a set of moral principles that regulate a person's behavior in carrying out their professional duties. In the field of management, professional ethics is becoming increasingly important because managers occupy strategic positions in decision-making that can significantly impact the organization. Therefore, an understanding of professional ethics is crucial for carrying out management tasks effectively.

### Ethical Theories

Ethical theories provide a conceptual foundation that helps analyze human actions from various moral perspectives. Some theories relevant to analyzing business and management ethics cases include:

1. Deontological ethics comes from the Greek word "deon," meaning duty. This theory emphasizes that actions are judged right or wrong based on moral obligation, not consequences. Kant (1785) developed the concept of *the categorical imperative*, which states that one must act based on universal principles that are acceptable to all. In a professional context, deontological ethics requires every professional to uphold honesty, integrity, and rules without regard for personal gain.
2. Teleological Ethics/Utilitarianism, derived from " *utility*," meaning benefit, assesses morality based on the greatest possible outcome or benefit for the greatest number of people. According to Bentham and Mill (in Keraf, 2020), an action is considered ethical if its benefits outweigh its costs. In management, utilitarianism is widely used to evaluate corporate policies that impact broad stakeholders.
3. Virtue *Ethics* : Virtue ethics assesses morality based on an individual's character and virtues. According to Aristotle (in Lill, 2016), a person is considered ethical if they possess qualities such as integrity, honesty,

wisdom, and responsibility. This theory is particularly relevant in organizations that emphasize *good leadership* and the development of an ethical culture.

### Professional Ethics in Management

Management professionals possess a wide range of skills, including *planning*, *organizing*, *actuating*, and *controlling*, as well as decision-making. Within this strategic approach, professional ethics is a crucial component of an organization's success. According to Daft (2019), managers who uphold professional ethics are better able to maintain public trust and drive organizational success.

The principles of professional ethics in management include:

1. Honesty means that managers *are* obliged to convey information correctly and accurately.
2. Transparency means that all decisions and policies must *be* open and accountable.
3. Integrity means that *managers* must maintain consistency between words and behavior or actions.
4. Accountability means that every decision must *be* morally and legally accountable.
5. Responsibility, refers to *managers* being accountable for the impact of decisions on all stakeholders.

Without strong ethics, organizations may face the risk of data manipulation, abuse of power, and loss of public trust (Ferrell, Fraedrich & Ferrell, 2020).

### The Role of Managers in Implementing Professional Ethics

Managers play a key role in determining whether professional ethics are consistently applied within an organization. According to Robbins & Coulter (2021), managers are not only responsible for operational functions but also for shaping the company's culture.

The role of managers in professional ethics includes:

1. By serving as a *role model*, managers are figures looked up to by subordinates. If managers demonstrate integrity in all their actions, employees are more likely to adopt the same values. Treviño & Nelson (2021) emphasize that ethical leadership begins with the leader's own behavior.
2. Making ethical decisions means that **every** managerial decision, including financial, operational, and strategic decisions, must consider the moral impact. According to Jones (1991), ethical decision-making requires an analysis of the consequences, affected parties, and relevant moral principles.
3. Building an ethical culture: An ethical organization cannot exist without the support of managers. Managers must establish policies, procedures, and value standards that reflect high moral standards.
4. To enforce the code of ethics, managers must ensure that all employees adhere to the organization's code of ethics. Managers are responsible for taking firm action according to procedures if violations occur (Ferrell *et al.*, 2020).
5. Overseeing compliance mechanisms, managers must ensure that the organization complies with internal and external regulations such as good corporate governance (GCG), government regulations, and accounting standards.
6. To prevent and address ethical violations, managers must be proactive in addressing the disease of deviance and provide safe channels (*whistleblowing*) for employees to report violations.

### Professional Ethics and Good Corporate Governance (GCG)

Professional ethics is closely related to the implementation of *good corporate governance*, especially in large companies and public companies. According to the *Forum for Corporate Governance in Indonesia* (FCGI, 2015), GCG emphasizes five main principles:

1. Transparency
2. Accountability
3. Responsibility
4. Independence
5. Fairness

Professional ethics serve as a moral foundation that ensures GCG is not only an organization but also a culture. Without ethics, GCG implementation tends to be formal and vulnerable to violations.

## DISCUSSION

### Analysis of Ethical Violations in the Garuda Indonesia Case

In the Indonesian aviation industry, the Garuda Indonesia case was one of the most prominent ethical issues in 2019. As part of its 2018 book income, management encountered issues when it decided to include revenue from

the same transaction with PT Mahata Aero Teknologi. However, the transaction was not yet completed and remained a long-term receivable. This action created a significant overstatement of the company's earnings, drawing public and public attention. Subsequently, the Financial Services Authority (OJK) discovered violations of accounting and record-keeping principles, necessitating a review of the financial statements and the dismissal of the two commissioners who reviewed them. This indicates serious problems with professional ethics, business integrity, and effective corporate governance *within* Garuda Indonesia.

### **Analysis of Ethical Violations Based on Ethical Theory**

#### **Deontological Ethical Perspective**

Deontological ethics focuses on the moral obligation and rightness of actions, regardless of the intended outcome or profit (Kant, 1785). In the Garuda case, management violated the moral obligation to be honest and accurate in financial reporting. The need to understand unrealized revenues challenged professional ethics and accounting standards, making the action unjustifiable even though management's goal was to improve the company's image. Therefore, from a deontological perspective, the action was completely unethical .

#### **Utilitarianism Ethics Perspective**

Utilitarianism assesses actions based on the greatest benefit to the greatest number of parties (Kerf, 2020). Garuda's management may have thought that "polishing" the financial statements would bring short-term benefits, such as increasing investor confidence, improving performance image, and maintaining stock stability. However, the long-term impacts were far more detrimental: investors suffered losses due to receiving misleading information, the company's reputation was damaged, the public lost trust, and the company received sanctions from regulators. Because the harm outweighed the benefits, this action was clearly unethical according to utilitarianism.

#### **Ethics Perspective**

Virtue ethics judges actions based on the character of the perpetrator (Aristotle, 2016). The Garuda case demonstrates that management failed to display virtues such as honesty, wisdom, integrity, and responsibility. Instead, their actions demonstrated character traits unbecoming of professionals in strategic positions. From this perspective, Garuda's actions are deemed not to reflect good morality .

### **The Relationship Between the Garuda Case and Professional Management Ethics**

Based on the principles of professional ethics, Garuda management's actions violate several important principles:

1. Honesty : *The financial* statements presented do not reflect the actual situation. Management failed to provide accurate information to the public.
2. Transparency , the presentation of information is done in a non-transparent manner *and* aims to cover up the actual financial condition.
3. Integrity , *manipulation* of reports shows that the value of integrity is not carried out by company leaders.
4. Accountability , decision making cannot be *justified* morally or professionally.
5. Responsibility , *management* does not consider the long-term impact on shareholders, investors and the public.

Violations of these principles demonstrate the low quality of professional ethics within Garuda Indonesia's managerial scope.

### **The Role of Managers in Causing Ethical Violations**

The Garuda Indonesia case also shows the failure of managers to carry out their roles in accordance with professional ethics , namely

1. Failing to be ethical role models, directors, who should be role models, are instead committing violations. This has resulted in a decline in ethical culture within the organization.
2. Unethical Decision Making, the decision to recognize unrealized revenue reflects a disregard for moral analysis and a focus solely on short-term profits.
3. Weak Organizational Ethical Culture, a weak ethical culture makes ethical violations easy to occur and does not receive internal resistance.
4. Weak Enforcement of the Code of Ethics, two commissioners who rejected the report were dismissed, shows that compliance with the code of ethics is not valued in the organization.
5. Failure to Oversee Compliance Mechanisms, managers do not implement adequate internal controls in maintaining financial reports in accordance with accounting and GCG rules.

In other words, this violation was not only caused by technical accounting errors, but also by a failure of ethical leadership *at* the managerial level.

### The Impact of Ethical Violations on Companies

1. Reputation Impact, the company's image is severely damaged and it will take a long time to recover.
2. Financial Impact: Garuda must restate its financial reports and accept sanctions from the OJK.
3. Impact on Shareholders and Investors, investor confidence decreased drastically due to obtaining incorrect information.
4. Impact on Employees, employee morale decreases because leaders show unethical behavior.
5. Impact on Regulators and Industry, this case forced regulators to tighten supervision of public companies.

### Professional Ethics Learning for Management Students

The Garuda case provides a number of important lessons:

1. Integrity is the foundation of the management profession.
2. Managerial decisions always take social and ethical aspects into account.
3. Manipulation of financial statements involves both technical and moral violations.
4. As an interpreter of ethics, managers must carry out their duties.
5. Strong ethical standards should be established as soon as possible by the organization's leaders.
6. *corporate governance* cannot run without strong professional ethics.

## CLOSING

### Conclusion

Based on the discussion regarding professional ethics and analysis of ethical violation cases at Garuda Indonesia in 2019, several important conclusions can be drawn as follows:

1. Professional ethics are moral principles that must be upheld by all professionals, including managers. Ethics serve to uphold integrity, honesty, transparency, and integrity in professional activities. In management, ethics plays a crucial role in developing strategies that benefit not only the business but also others.
2. The ethical violations at Garuda Indonesia indicate that the manipulation of revenue in the 2018 financial statements violates basic professional ethical principles, such as honesty, transparency, and accountability. These actions are inconsistent with professional ethics and established accounting standards.
3. An analysis of ethical theory reveals that Garuda Indonesia's actions are unethical from various moral perspectives. According to deontological ethics, these actions violate the moral obligation to uphold morality. According to utilitarianism, these actions produce negative impacts that outweigh their benefits. According to virtue ethics, these actions minimize moral qualities such as integrity and wisdom .
4. Management played a significant role in the emergence of ethical violations, as the board of directors failed to set an ethical example and created a culture that did not violate the company's code of ethics. The act of ignoring the objections of two commissioners also highlights management's weak commitment to the principles of good *corporate governance* .
5. The Garuda Indonesia case provides important lessons for students and aspiring professionals. These findings indicate that ethical management practices impact not only a business's image but also public trust, business values, and industry stability. Therefore, professional ethics must be understood and implemented from the outset.

## SUGGESTION

1. For Companies (Garuda Indonesia and Other Companies)  
Companies must strengthen their commitment to professional ethics by creating an integrity-based organizational culture and strengthening internal oversight systems to ensure financial and managerial reporting consistently complies with established standards and regulations. Furthermore, it is crucial for all managers and employees to apply ethical principles clearly to enhance morale in carrying out their duties. Companies should also develop whistleblowing mechanisms *that* allow employees to report violations without fear of repercussions, thereby reducing the potential for misconduct.
2. For Regulators and Government  
Regulators and the government need to ensure that all business practices comply with applicable regulations. They must strengthen oversight of public companies, particularly in the area of financial transparency. Strict



and consistent sanctions are crucial to prevent recurrence of ethical issues. Furthermore, the government must encourage the implementation of *Good Corporate Governance* (GCG) by enacting more comprehensive regulations and providing education for business actors to ensure smooth and optimal implementation.

3. For Managers and Company Leaders

Company managers and executives should model ethical behavior by emphasizing integrity as a key component of leadership and as the basis for all decisions, both short-term and long-term. Furthermore, they should encourage continuous improvement in professional ethics skills through training, seminars, or business case studies to address moral dilemmas more clearly. By doing this, managers can help create a professional and ethical work environment.

4. For Students and Aspiring Professionals

Students and aspiring professionals need to develop an understanding of ethics from an early age through literature, academic discussions, and case studies to better prepare them for the challenges of the workplace. The values of integrity and honesty must be upheld in campus life and organizations as a foundation for developing a strong professional character. To ensure the next generation of professionals have stronger moral convictions, case studies, such as Garuda Indonesia, must also teach the serious implications of ethical behavior in management.

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