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CONSTRAINTS TO THE IMPLEMENTATION OF GOOD CORPORATE GOVERNANCE IN STATE-OWNED ENTERPRISES TOWARDS A SOCIETY ERA 5.0: CASE STUDY IN INDONESIA

Devid Putra Arda, Aep Saefullah, Ahmad Fadli, Siti Fatimah Al Mukarramah
STIE Ganesha Jakarta, Indonesia
Email: davidardazhaqy@gmail.com, aep@stieganesha.ac.id, afadli2769@gmail.com

Abstract

The purpose of this research is to uncover the implementation of good corporate governance in the Republic of Indonesia's state-owned enterprises. State-owned enterprises were established to aid economic development. The primary function of state corporations is to manage and produce goods and services that are critical to the Indonesian people. Many business entities have succeeded in carrying out their functions, but some have failed. This study looks at the barriers to applying good corporate governance principles in state-owned enterprises. This is qualitative research with a descriptive approach. Using literature studies and document studies to collect research data. According to the study's findings, the main barriers to implementing good corporate governance principles are nepotism and corruption. In addition, human resource competence remains low.

Keywords: Implementation; Good Corporate Governance; State-Owned Enterprises; Society Era 5.0.

INTRODUCTION

Assessment of Good Corporate Governance in State-Owned Enterprises applies in various countries. Corporate governance becomes a distortion for the transformation of a country into a modern innovation economy (Iacopetta & Peretto, 2021). The problems encountered are also the same, as in the country of Mauritius, (Rughoobur, 2018) reports that continuous government intervention acts as a barrier to the functioning of SOEs. And (Yu et al., 2022) outline the effects of uncertainty on the corporate governance of state-owned enterprises in China.

The purpose of establishing SOEs in Indonesia is to improve the economy. SOEs play an important role in managing resources and producing goods and services that affect the lives of many people. SOEs have played a strategic role in infrastructure development, such as the construction of toll roads, airports/ports, and railway lines/stations. This will accelerate Indonesia's economic growth and equity as well as open regional access to facilitate the distribution of goods and services.

SOEs make social contributions as well.: (1) providers of goods and/or services to meet the needs of the masses at relatively affordable prices, for example through Perum Bulog, PT PLN, and PT Pertamina; (2) Becoming a pioneer of business activities that have not been carried out by other business entities, for example, PERURI, PT Pos Indonesia, and PT Taspen; (3) Actively providing guidance and assistance to the community, micro, small businesses, and cooperatives, for example providing Corporate Social Responsibility (CSR), Ultra Microloans (UMi) and assistance from PT Bahana Indonesia, PT PMN and PT Pegadaian.

As government-owned enterprises, SOEs act as value-creating agents and development agents. As value-creating agents, SOEs are expected to be able to contribute profits to the state. As agents of development, SOEs are expected to contribute to national development, including economic recovery during the Covid-19 pandemic. To achieve this goal, the Government has made State Capital Investment (PMN) of IDR 219 trillion (2005-2019) which is used to improve the performance of BUMNs, restructure BUMNs, and establish new BUMNs.

Meanwhile, to strengthen the capital of SOEs due to the impact of Covid-19, the Government made PMNs for SOEs of IDR 31.5 trillion. The number of SOEs in Indonesia is 142 companies with total assets of IDR 8,092 trillion and various business fields. The total assets of this BUMN far exceed the assets of the super holding company Temasek (Singapore) worth IDR 1,112.59 trillion and Khazanah (Malaysia) worth IDR 463.59 trillion.

In 2019, BUMN contributed Rp. 470 trillion of the State Revenue and Expenditure Budget (APBN) in the form of dividends, tax payments, and Non-Tax State Revenue (PNBP). SOEs also contribute through operating expenses and capital expenditures which contribute to national economic growth both in terms of consumption and investment. Not all SOEs can be profitable. Some SOEs have suffered losses. Throughout 2022, seven SOEs were closed. After all, they were losing money because they had not implemented good corporate governance (Gunawan et al., 2019) .

RESEARCH METHODS

This study uses a qualitative research method, with a literature review approach (Landoni, 2020). The literature review serves as an important instrument for conducting a contact review. Because it is useful to explain the research context. Through literature review, researchers can express research content explicitly. So that readers who are interested in this research get a clear picture of the importance of this research to be carried out (Saefullah & Hajar, 2022).

It is also understood by researchers that a literature review is a form of literature study by reading and understanding several scientific books and journals, which are relevant to the topic of research discussion.

This research must be supported by scientific theories related to the research topic (Suprayitno et al., 2005). The literature review is carried out with the awareness that knowledge will continue to increase and ensures that the study under study has already been carried out with the same theme by other parties. So that we can learn and find novelty for the studies we are doing (Fedi Ameraldo & Nazli Anum Mohd Ghazali, 2021).

In this case, the researcher makes a literature review which is intended to enrich the researcher's insights on certain topics of discussion and assist researchers in formulating research problems, as well as assisting researchers in determining the appropriate methods and theories to use in research (Apriyani & Sari, 2022).

Under the principle of a literature review, research that has been done previously will be the main source of research material (Febrian & Ahluwalia, 2020). Furthermore, the researcher uses the literature study method with the topic of Good Corporate Governance in State-Owned Enterprises.

RESULT AND DISCUSSION

GCG principles in BUMN in Indonesia, namely: (1). Transparency, openness in carrying out the decision-making process, and openness in disclosing material and relevant information about the company; (2). Accountability, clarity of functions, implementation, and accountability of organs so that the management of the company is carried out effectively; (3). Responsibility, suitability of company management with laws and regulations and sound corporate principles; (4). Independence is a condition where the company is managed professionally without conflict of interest and influence/pressure from any party that is not following laws and regulations and sound corporate principles; (5). Fairness, fairness, and equality in fulfilling the rights of stakeholders that arise based on agreements and laws, and regulations (Https://knkg.or.id/, 2006).

Based on the findings in the study, the following GCG violations occurred: (1) Violating the principles of professionalism and credibility of the Board of Directors and Board of Commissioners. The importance of the role of the board of commissioners is explained (Syafa'ah, 2021) that the board of commissioners and directors determines the direction of good corporate governance.

The board of commissioners influences a company's financial performance. This happened to a former member of the Corruption Eradication Commission (KPK) who was placed as a Commissioner at PT. Krakatau Steel, as well as former military officials assigned to become commissioners at PT. Pertamina. This certainly violates the rules that mandate the appointment of Directors and Commissioners based on the professionalism and credibility of those concerned. As a result, the Directors and Commissioners are unable to carry out their duties properly; (2) PT Perusahaan Listrik Negara (Persero), mismanaged electricity subsidies which cost the state Rp. 42 billion. This violates the principles of GCG accountability, namely the clarity of functions, implementation, and accountability of organs so that the management of the company is carried out effectively; (3) The Public Company Logistics Agency (BULOG) which failed to manage subsidized rice for low-income people in a professional manner resulting in a loss of IDR 211 billion to the state. This failure violates principle; PT Bank Negara Indonesia was unprofessional in managing lending to customers causing losses to the state of IDR 336 billion.

This violates the GCG principles, namely transparency and accountability; (4) Perum Pembangunan Perumahan Nasional failed to manage assets properly and many properties were completed. This means that the company violates the principle of responsibility, namely compliance in managing the company with laws and regulations and sound corporate principles; (5) PT Garuda Indonesia, a national airline company confirmed as a "flag carrier", has carried out financial management and accountability for the company's activities and production costs that are not transparent. This situation violates the principle of transparency, namely openness in carrying out the decision-making process and openness in disclosing material and relevant information about the company.

Based on the explanation above, the problems of BUMN Companies can be summarized as follows:

Table 1. Governance Principles Violated in Indonesian SOEs Companies

No	Company name	Business fields	GCG principles that are violated
1.	PT Krakatau Steel	Steel Industry	Transparency and accountability
2.	PT Pertamina	Oil and gas	Transparency and accountability
3.	State Electricity Company PT	Electricity	Accountability and responsibility
4.	Public Company Logistics Affairs Agency	Food	Accountability and responsibility
5.	PT. Indonesian State Bank	Banking	
6.	Housing Development General Corporation	Housing area	responsibility
7.	PT. Garuda Indonesia	Flight	transparency

Source: Processed from various sources

Good corporate governance is a strategic determinant for companies so that profits always increase value and maintain business continuity growth processes. Therefore, every company is required to continue to improve its hard work so that it can benefit from the implementation of good corporate governance (Wibowo, 2010).

GCG is very important to apply to state-owned companies to create an efficient, effective, and economical company (Purwanto, 2020). Good Corporate Governance (GCG) has become a strategic position within the company and complies with and upholds the rules and regulations implemented by the government. GCG implementation needs to be supported by three interconnected pillars, namely the state and its institutions as regulators, the business world as market players, and the public as users of business products and services.

Each pillar must carry out its function properly. Namely: (1) The government or the state draws up laws and regulations that support a healthy, efficient and transparent business climate. As well as complying with laws and regulations and consistent law enforcement (consistent law enforcement); (2) Corporations consistently apply GCG as a basic guideline in conducting business; (3) Communities as users of the products and services of the business world as well as parties affected by the presence of the company.

Public concern for the company's compliance in the implementation of GCG will be an objective and responsible social control. From these data, it can be explained that some of the obstacles faced in implementing the principles of governance, in general, are: (1) management is too dominant in controlling the company; (2) the directors are weak and too subject to management decisions so that the control of the directors is not significant; (3) Unions that have no say in management.

From the description of the obstacles to implementing governance, details can be summarized in the following table:

Table 2. Obstacles to the Implementation of GCG in Indonesian SOEs Companies

No	GCG Principles	Obstacles of GCG Implementation
1.	Transparency, the company must provide material and relevant information in a way that is easily accessible and understood by stakeholders.	1. The reason is the lack of HR knowledge and understanding of GCG principles. Many HR has not participated in training, seminars, or workshops. 2. In addition, the application of the principle of transparency in many Persero is also constrained by inadequate infrastructure, such as the unavailability of a website. 3. system in Indonesian law

		includes Law no. 19 of 2003 and Law no. 40 of 2007, which is soft law (soft). There are no criminal sanctions imposed on Persero or Limited Liability Companies that do not implement GCG 4. GCG is only a code of conduct or business ethics. Remembering only as business ethics, so it is not coercive.
2.	Responsibility, corporate responsibility is not only given to shareholders but also to stakeholders.	1. The responsibility of SOEs is in the form of corporate social responsibility (CSR) to the community, and therefore the Persero must carry it out properly. However, the implementation of these special tasks sometimes does not pay attention to the principles of sound company management. So that CSR actually becomes a burden on the company.
3.	Accountability, the company must be able to account for its performance transparently and fairly	1. For SOEs that are losing money, the biggest obstacles are nepotism and corrupt culture. For example, mark-up project funds .
4.	Fairness. In carrying out their activities, companies must always pay attention to the interests of shareholders and other stakeholders based on the principles of equality and fairness. The principle of fairness can also be interpreted as efforts and actions that do not discriminate against all interested parties (stakeholders) of the organization or company concerned. (stakeholders) of the organization or company	1. The principle of fairness cannot be applied optimally because there is a bad character on the part of the management and commissioners who are concerned with the group and the individual, as remuneration received by the personnel of the board of directors and commissioners for the various facilities obtained. 2. Many SOEs have not yet developed corporate conduct and policies that protect corporations from insider abuse, self-dealing, and conflicts of interest.

	concerned.	
5.	Independence, To expedite the implementation of GCG principles, the company must be managed independently so that each company organ does not dominate the other and cannot be intervened by other parties	1. Another obstacle to the implementation of GCG in the Persero is the political influence or intervention that often occurs in the management of the Persero. Political considerations always outweigh professional considerations.

The performance of Indonesian BUMN companies has shown an increase, in 2022 according to the report from the Ministry of BUMN, total assets will grow from IDR 8,312 trillion in 2020 to IDR 8,978 trillion in 2021, or an increase of 8%. Operating profit increased from Rp. 1,930 trillion, up 19 percent to Rp. 2.292 trillion, meaning the same as the situation before Covid. However, some SOEs were forced to close due to poor performance. In 2022, BUMN's performance must be even more optimal. Because good governance was not implemented, seven BUMNs were closed.

Based on research results (Damayanti, 2021) there are still many BUMNs that have not implemented good governance, the functions of the audit committee and internal audit encourage the quality of management of BUMN companies.

The five Indonesian SOE GCG principles have problems in their implementation in the field. The principle of transparency, the weaknesses found are: (1) the limited ability of HR in mastering GCG knowledge; (2) Inadequate infrastructure, for example, the availability of a website. The second GCG principle, regarding responsibility, is an obstacle found in the implementation of CSR which is not based on company performance, but on orders from the state to implement it. Furthermore, the practice of nepotism and corrupt behavior occurs on the principle of accountability. The principle of fairness is difficult to apply in several BUMNs because of the personal relationship between company directors and state officials or members of the DPR so the decisions taken are often unfair. If used wisely, political access and connections can play a role in increasing SOE innovation and performance, the higher the level of political connections, the bigger the role (Zhang et al., 2022). The highlight of the presence of SOEs in Indonesia is that SOEs are used as a source of income for political parties and the ruling regime so the principle of independence is not implemented optimally.

CONCLUSION

The results of this study indicate that there are obstacles to the implementation of GCG in Indonesian BUMN. The tools used to study are the SOE GCG principles issued by the Ministry of SOEs, consisting of responsibility, transparency, accountability, fairness, and independence. It can be concluded that the most significant obstacle in implementing the principles of governance is interference from external parties which causes SOEs to become not independent. For example, the political intervention has an impact on the independence of BUMN management. Political considerations are more dominant than professional considerations. From the aspect of fairness, many SOEs have not yet developed corporate conduct and policies that protect corporations from insider abuse, self-dealing, and conflicts of interest. The principle of accountability can be seen in state-owned enterprises that have suffered losses. The biggest obstacle is the practice of nepotism and corrupt culture. For example, mark up project funds with fantastic value. On the principle of responsibility, the biggest obstacle to its application is the implementation of corporate social responsibility (CSR) which is not on target, because there are state orders that are not per company plans. Transparency cannot be carried out optimally, due to the limited competence of human resources.

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