A Qualitative Analysis of Corporate Governance in Indonesian State-Owned Enterprises: An Internal Stakeholders Perspective

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I declare that this thesis is my own account of my research and contains as its main content work which has not previously been submitted for a degree at any tertiary education institution.

Signed

Frederik Gerard Worang
Abstract

Poor corporate governance practices in Indonesian State-Owned Enterprises (SOEs) have been blamed for being significant causes of the Indonesian financial crisis in 1998. A significant number of SOEs went financially bankrupt at that time. Currently, the effort to organise the SOEs by the Government of Indonesia, as the majority shareholder, is still ongoing. This study is concerned with corporate governance practices in Indonesian SOEs.

The research examines the behaviour of internal stakeholders of the SOEs in question. These included members of the Boards of Directors and members of the Boards of Commissioners in a state-owned bank, a state-owned power company, and a state-owned airline. There have been previous studies of corporate governance in Indonesian private companies but little research focusing on SOEs. This study investigates management and directors’ behaviour in the three SOEs using a qualitative research approach. This differs from previous research studies that primarily employed quantitative methods.

In-depth interviews were conducted with thirty-eight respondents from the managerial level upward in the three SOEs. In addition, to make the study more comprehensive, interviews were conducted with two respondents from the Office of the Ministry of State-Owned Enterprises, and one respondent from the Anti-Corruption Commission. Most interviews were conducted in 2005, a few in 2009, and these were updated in 2013.
Qualitative analysis was used to analyse the data from the interviews and archival data in the form of publications from the main Indonesian mass media, and journal publications.

It was found that the boards of directors and the boards of commissioners were not properly implementing good corporate governance (GCG) practices. They do, however, practise what is known as KKN or Korupsi, Kolusi, and Nepotism (corruption, collusion, and nepotism). Most of the time, SOEs are subject to significant intervention from the ruling government including politicians who have their own self-interest in SOEs. As stated by respondents, and supported by data in the mass media, SOEs have become “cash cows” or “automatic teller machines” to serve the government of the day. The government is interested in the performance of SOEs, because the government itself is a major shareholder. This is different from the private sector where people are the shareholders who hold the boards and management to account.

Another significant finding is that the adoption of wholesale corporate governance practices from the West is difficult to implement due to differences in the culture and legal structure of Indonesian SOEs. Indonesian society is mostly influenced by prevailing Javanese culture that has also been embedded in these SOEs. Another relevant factor is that the first two Presidents of Indonesia were Javanese. These factors have hindered the implementation of GCG.

Another finding is that the adoption of the concept of independent directors (independent commissioners in SOEs) from a Western based one-tier governance structure has been adopted blindly and unquestioningly in Indonesian SOEs.
A range of recommendations to ensure sound GCG are also presented in this thesis. For example, the establishment of whistleblower protection mechanisms, and appropriate GCG guidelines.

This study also finds that the shareholders’ approach arising from the agency theory is not suitable for GCG in Indonesian SOEs. The stakeholder theory approach is the more appropriate base from which SOEs should operate. This is because according to Indonesian law, the SOEs are the backbone of the Indonesian economy, and therefore, SOEs should satisfy the needs of the Indonesian public, a major stakeholder.
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## Abbreviations

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<tr>
<td>ABRI</td>
<td>Angkatan Bersenjata Republik Indonesia (the Indonesian Army)</td>
</tr>
<tr>
<td>ABS</td>
<td>Asal Bapak Senang (as long as the “sir” happy)</td>
</tr>
<tr>
<td>AC</td>
<td>Audit Committee</td>
</tr>
<tr>
<td>BAPEPAM</td>
<td>Badan Pengawas Pasar Modal (the Indonesian Investment Supervisory Body)</td>
</tr>
<tr>
<td>BI</td>
<td>Bank of Indonesia (the Indonesian Central Bank)</td>
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<tr>
<td>BIN</td>
<td>Badan Investigasi Nasional (National Investigation Body)</td>
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<tr>
<td>BLBI</td>
<td>Bantuan Likuiditas Bank Indonesia (Bank of Indonesia liquidity assistance program)</td>
</tr>
<tr>
<td>BOC</td>
<td>Board of Commissioners</td>
</tr>
<tr>
<td>BOD</td>
<td>Board of Directors</td>
</tr>
<tr>
<td>BPK</td>
<td>Badan Pemeriksa Keuangan (the State Auditor)</td>
</tr>
<tr>
<td>BUMN</td>
<td>Badan Usaha Milik Negara (SOEs)</td>
</tr>
<tr>
<td>DPR</td>
<td>Dewan Perwakilan Rakyat (House of Representatives)</td>
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<tr>
<td>GCG</td>
<td>Good Corporate Governance</td>
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<tr>
<td>GOI</td>
<td>Government of Indonesia</td>
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<tr>
<td>KKN</td>
<td>Korupsi Kolusi Nepotisme; Corruption Collusion Nepotism</td>
</tr>
<tr>
<td>KORPRI</td>
<td>Korps Pegawai Republik Indonesia (the corps of Indonesian government employees)</td>
</tr>
<tr>
<td>KPK</td>
<td>Komisi Pemberantasan Korupsi (Corruption Eradication Commission)</td>
</tr>
<tr>
<td>LPSK</td>
<td>Lembaga Perlindungan Saksi Korban or Witness and Victim Protection Body</td>
</tr>
<tr>
<td>MA</td>
<td>Mahkamah Agung (the Supreme Court)</td>
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<tr>
<td>MP</td>
<td>Member of Parliament</td>
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<tr>
<td>NED</td>
<td>Non-Executive Directors</td>
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<tr>
<td>Abbreviation</td>
<td>Full Form</td>
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<tr>
<td>SBY</td>
<td>Susilo Bambang Yudhoyono, the President of Republic of Indonesia</td>
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<td>SOEs</td>
<td>State-Owned Enterprises</td>
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<tr>
<td>TPA</td>
<td>Tim Penilai Akhir (team of final evaluation)</td>
</tr>
<tr>
<td>UK</td>
<td>United Kingdom</td>
</tr>
<tr>
<td>USA</td>
<td>United States of America</td>
</tr>
<tr>
<td>UU</td>
<td>Undang Undang (law)</td>
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<td>UUD 1945</td>
<td>Undang Undang Dasar 1945 (the Indonesian Constitution)</td>
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Glossary

**Amar ma’ruf nahi munkar (Arabic):**
Islamic concept of to do good deeds and prevent ill deeds.

**Corporate Culture:**
A company’s values, beliefs, business principles, traditions, way of operating, and Internal work environment.

**Epistemology:**
Refers to the way of knowing and carries implicit assumptions in the way we know (or discover) the way the world is. In simpler words it is the theory of knowing - *the way we know what we know* (Holloway, 2006, p. 19).

**Ewuh pakewuh (Javanese):**
Uneasiness; obedient or attentive an excessive or servile degree. In the organisation this is practiced by the subordinate with his/her superior, or children to parents amongst family members (Poerbo, 2014).

**Gotong royong:**
Working together cooperatively

**Hukum adat (adat law):**
Refers to the law based on the customs of Indonesia

**Independent Commissioner:**
Please see Independent Director

**Independent Director:**
A director who is independent of management and free from any interest and any business or other relationship which could or could reasonably be perceived to, materially interfere with the director’s ability to act with a view to the best interests of the corporation” (Reiter, 1999). This is similar with which called *independent commissioner* in Indonesia which adopt two-two tier system.

**Jalan damai or path of peace:**
A Social phenomenon that hinders the application of the law in Indonesia. It often occurs with “jalan tengah” or middle path.

**Jalan tengah or midway:**
People take the middle ground in resolving an issue.

**Legal Culture:**
Refers to the shared values, attitudes, standards, and beliefs that characterize members of the legal profession and define its nature.

**Mafia peradilan:**
Mafia in the judicial system (in Indonesia).
Mikul dhuwur, mendem jero (Javanese):
To protect the good names of family or superiors in the organisation (in this study), to worship family or management, and to conceal deeply family faults or management faults (Poerbo, 2014).

Mohon petunjuk:
Begging and waiting a direction from the top.

Ontology:
The assumptions we make about the way the world is influenced by deep and often unstated personal and intellectual assumptions about the way the real world is. In simpler words the nature of existence or being or things (Holloway, 2006, p. 20).

Orde baru:
New order or New era

Orde lama:
Old era

Organizational culture:
Refers to the ongoing adaptive process that determines what the organizational values and “virtues” are within an enterprise and to what extent these should legitimately inform and influence the operations and financial outcomes of the organization (Holloway, 2006, p. 20).

Qualitative Research (five features):
1. Studying the meaning of people’s lives, under real-world conditions;
2. Representing the views and perspectives of the people (or participants);
3. Covering the contextual conditions within which people live;
4. Contributing insights into existing or emerging concepts that may help to explain human social behaviour; and
5. Striving to use multiple sources of evidence rather than relying on a single source alone (Yin, 2011, pp. 7-8).

Research:
An intensive and purposeful search for knowledge and understanding of social and physical phenomena (Kumar, 2011, p. 1).

Research method:
The actual techniques used or steps taken to collect the data pertinent to the research problem and then the process used to analyse that data (Holloway, 2006, p. 33).

Research methodology:
Is a way to systematically solve the research problems (Kumar, 2011, p. 5).

Societal culture:
Culture based upon one’s identity and ideas, which are usually associated with a certain social group.
Tepo seliro (Javanese):
Keep feelings to yourself and do not say what you think.
Acknowledgement

Praise be to God for His Mercy.

I am greatly indebted to my Supervisor, Associate Professor David Holloway, who always encouraged me to complete my thesis. There were times when I was despairing and that was when he lent his gentle support. This thesis would not have been completed without his kind and generous assistance. David always found time to counsel me and to give his invaluable advice. I would like to use this opportunity to register my sincere appreciation. Having worked under his guidance and tutelage I also learned a very valuable lesson. Something that I would like to apply in my relationship with my own students, as a lecturer and supervisor back home at Sam Ratulangi University.

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