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CORPORATE GOVERNANCE IN
THE INDONESIAN STATE-OWNED ENTERPRISES

A Thesis presented in fulfilment of the requirements for the degree of Doctor Philosophy in Development Studies at Massey University, Palmerston North, New Zealand

MEIDYAH INDRESWARI
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**** This work is dedicated to my parents who through their everlasting love, devotion and prayers have made my world a better place to live in ****
Abstract

Concern regarding corporate governance is a new phenomenon in Indonesia. It became apparent in the business community when the economic crisis hit the country in 1997. Due to its recent recognition, it appears that very little is known about corporate governance in Indonesia and there has been no academic study conducted on corporate governance in the Indonesian State-owned Enterprises (ISOEs) despite the fact that their performance is closely linked to the development of the country.

The main objectives of this study are two-fold: first is to examine corporate governance systems and the roles of the Boards of ISOEs; and second is to assess the effectiveness of government initiatives in improving corporate governance practices in ISOEs. This study employed both qualitative and quantitative methods. The quantitative analysis was derived from numerical data obtained from government reports and other public documents. The qualitative analysis was based on the results of in-depth interviews with key individuals and other sources such as public opinions published in the mass media.

Several key findings were obtained from the results of this study. Firstly, the study found that using agency theory to explain the relationships between the agents and the principals was more problematic in ISOEs than those in private enterprises. This is because an ISOE is a loose coalition of various agents with no real owner. Consequently, agency theory, if it is used to redefine the relationships among parties in ISOEs, should be approached at two different levels. At the micro level the agency theory examines the agent-principal relationships among the ISOE management, the Boards and the government—the corporate governance tripod. At the macro level it examines the agent-principal relationships between the corporate governance tripod and the ISOEs stakeholders (the public, labour unions, politicians in the People's Representative Assembly and others).
Secondly, the results of this study confirm the results of previous studies which found that Boards in SOEs were largely ineffective. To enhance Boards' effectiveness, this study suggests that as a quasi-owner the government needs to reduce its intervention in ISOEs' operations and empower the Boards by establishing employee representation on the Board. In addition, Board training and assessment should be a mandatory in the ISOEs.

Thirdly, this study found that the initiatives on corporate governance carried out by the Indonesian government had been ineffective due to the lack of incentives, lack of commitment and consistency, lack of understanding of corporate governance and unclear programmes. Here, the key factor required to enhance effectiveness is strong-willed commitment of the government and ISOE management.

Lastly, other factors such as culture, public governance and law enforcement have a great influence in the process of attaining good corporate governance practices. Therefore, there should be joint efforts among parties in the public sector to ensure that good corporate governance is achieved in conjunction with the attainment of good public governance.
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Glossary

*Aku Cinta Produksi Indonesia' = I love Indonesian products

*Bank Indonesia* = the Indonesian Central Bank

*Bapak Pembangunan Indonesia* = the Father of Indonesian Development

Bappenas (*Badan Perencana Pembangunan Nasional*) = the National Development Planning Agency

BIN (*Badan Investasi Negara*) = the State Investment Board

BPPMA (*Badan Pertimbangan Penanaman Modal Asing*) = the Foreign Capital Investment Advisory Board

*Benteng* = Fortress

BPKP (*Badan Pengawasan Keuangan dan Pembangunan*) = The Financial and Development Supervisory Board

BULOG (*Badan Urusan Logistik*) = The National Logistics Agency

BUMN (*Badan Usaha Milik Negara*) = Indonesian State-owned Enterprises

*Demokrasi Terpimpin* = Democracy Guidelines

*Departmen Industri* = the Ministry of Industry

*Departemen Keuangan* = the Ministry of Finance

*Dewan Direksi* = Board of Management

*Dewan Komisaris* = Board of Directors

*Dewan Pengawas* = Board of Supervisors

DPR (*Dewan Perwakilan Rakyat*) = People’s Representative Assembly

EKUIN (*Ekonomi, Keuangan dan Industri*) = Economy, Finance, and Industry

ICW (*Indische Comptabiliteitswet*) = the Accountability Law in the Dutch colonial era

IBW (*Indonesische Bedrijvenwet*) = the Company Law in the Dutch colonial era
Indonesianisasi = the indigenisation of economic activity
Instruksi Presiden = Presidential Instruction
Kabinet Persatuan Nasional = the National Unity Cabinet
Kebijakan Ekonomi Terpimpin = Guided Economy Policy
Keputusan Menteri = Ministerial Decree
Keputusan Presiden = Presidential Decree
KKN (Korupsi, Kolusi, dan Nepotisme) = Corruption, Collusion, and Nepotism
Menunggu petunjuk = The state of waiting for instruction
Orde Baru = New Order
Orde Lama = Old Order
Peraturan Pemerintah = Government Regulation
Perjan (Perusahaan Jawatan) = Governmental Agency
Perum (Perusahaan Umum) = Public Company
Persero (Perusahaan Perseroan) = Limited Liability Company whose shares are wholly or partly owned by government
Perusahaan Negara = State Company
Repelita (Rencana Pembangunan Lima Tahun) = the Five Year Development Plans
PT (Perusahaan Terbatas) = limited liability company
RS (Rumah Sakit) = Hospital
Undang-Undang = Law
UUD 1945 (Undang-Undang Dasar 1945) = the Indonesian Constitution