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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

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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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Table of Contents

Abstract	iii
Acknowledgments	v
Table of Contents	vii
List of Tables, Figures and Boxes	xii
Glossary	xiv
Chapter One: Introduction	1
Research Background	1
Research Problem	6
Research Objectives and Research Questions	12
Importance of the Research	18
Research Outline	18
Chapter Two: Corporate Governance: A Review of the Literature	21
Introduction	21
Agency Theory	23
Conceptual Approaches to Corporate Governance	28
Corporate Governance Systems	35
Which Corporate Governance Model Is The Best?	41
Corporate Governance Basic Principles	43
Transparency	45
Accountability	47
Fairness	48
The Implementation of Principles in Practice	49
Governance and Management	50
The Objectives of Corporate Governance: Shareholder or Stakeholder Value?	52
Summary	58
Chapter Three: The Board of Directors	60
Introduction	60
What is a Board of Directors?	62
Board Structures: The One-tier versus Two-tier Board	65
One-tier Board Structure	65
Two-Tier Board Structure	66
Issues in the One-Tier Board Structure	73
Board Composition	74
Board Leadership: Duality or Separation of Roles?	78
Board Committees	82

The Roles of the Board of Directors	84
The Duties of the Board of Directors	88
The Fiduciary Duty	88
The Duty of Loyalty and the Duty of Fair Dealing	89
The Duty of Care	90
The Duty of Supervision	90
Board Activities	91
Some Boards Issues	92
Summary	93

Chapter Four: State-owned Enterprises- A Literature Review **96**

Introduction	96
What is a State-Owned Enterprise?	96
The Origin of SOEs	98
The Rationales and Motives of SOEs	99
The Objectives of the SOEs	102
The Performance of SOEs	106
Privatisation	108
Why Privatisise?	109
The Privatisation Debate	112
Privatisation Methods	114
Corporate governance in SOEs	114
The Board of Directors in SOEs	117
Corporate Governance Principles	122
Summary	123

Chapter Five: Research Methodology-Carrying Out the Research **126**

Introduction	126
Data Collection Methods	126
Quantitative Research	127
Qualitative Research	127
In-Depth Interviews with the Elite	129
The Interview Guide	130
The Sampling Techniques and the Sample	131
The Sampling Techniques	131
Implementing the Snowball Sampling Technique	132
The Sample	133
Data Analysis and Interpretation	135
Analysis of Interview Results	135
Ethical issues	136
Fieldwork Experience	137
Contacting the Participants	137
Delivering the Interview	138
Why Good Responses?	142
Who are the Elite in this Study?	143

The Limitations of Research Method	144
Summary	145
Chapter Six: Indonesian State-Owned Enterprises	147
Introduction	147
The Origin of ISOEs	147
The Evolution of ISOEs	148
Old Order Regime – The Sukarno Era	148
New Order Regime – The Suharto Era	155
Reformation Regime - After the Economic Crisis	162
The Roles and Objectives of ISOEs in the Indonesian Economy	168
The Performance of ISOEs	170
Privatisation of ISOEs	175
Methods of Privatisation	177
Debates on Privatisation	179
Current Status	183
Some Issues in the ISOEs	185
Summary	187
Chapter Seven: Corporate Governance and the Boards in ISOEs	189
Introduction	189
Corporate Governance in the ISOEs	190
The Shareholders General Meeting	190
The Board of Commissioners (Dewan Komisaris) and the Board of Supervisors (Dewan Pengawas)	193
The Board of Management (Dewan Direksi)	194
Corporate Governance Principles	196
Transparency	196
Accountability	200
Independence	202
The Board of Commissioners/Supervisors	205
Board Composition	206
Board Size	206
Board Independence	207
Board Structure	211
Board Committees	211
Board Secretaries	213
Board Characteristics	214
Board Backgrounds	214
Board Training	215
Board Process	218
Board Power and Duties	218
Board Meetings	220
Multiple Roles of the Board	221
Board Performance and Effectiveness	224

Summary	230
Chapter Eight: Corporate Governance - Initiatives and Implementations	233
Introduction	233
Corporate Governance Initiatives in the ISOEs	237
The Initiatives in Practice	241
Factors That May Affect the Effectiveness of Corporate Governance Initiatives in ISOEs	245
The Absence of Owners	245
Lack of Understanding of Corporate Governance Concept	247
Lack of Commitment and Consistency	249
Unclear Programmes	256
Multiple and Conflicting Objectives	257
External Factors That May Affect Corporate Governance in ISOEs	259
Privatisation and Corporate Governance	262
Prescribed Corporate Governance Model: One Size Fits All?	265
Summary	267
Chapter Nine: Discussions of Key Findings	269
Introduction	269
Key Findings on ISOEs	270
The Objectives	270
The Rationales and Motives of SOEs	271
The Performance of SOEs	273
Privatisation	275
Key Findings on Corporate Governance	277
The Concept	277
The Objective of Corporate Governance	279
Basic Principles of Corporate Governance	280
Transparency	280
Accountability	282
Independence	283
Key Findings on the Boards	284
Lack of Legal Power and Responsibilities	284
Lack of Incentives	285
The Wrong Man in the Right Place	287
Lack of Independence	288
The Absence of Board Assessments	289
Ineffectiveness of Audit Committees	290
Key Findings of Factors That May Affect Corporate Governance Initiatives	291
Commitment and Consistency	291
Lack of Understanding	292
Unclear Programme	292

Summary	293
Chapter Ten: Conclusion	295
Introduction	295
Summary of Chapters	295
Key Findings and Some Policy Implications	301
Limitations of the Study	306
Suggestions for Future Research	307
References	308
Appendix A: The Interview Guide	327
Appendix B: Interviewee List	329

List of Tables, Figures and Boxes

List of Tables

Table 1.1 :	List of Asian Companies with Poor Corporate Governance	2
Table 2.1 :	A Taxonomy of Corporate Governance Systems	36
Table 2.2 :	Stylized Characteristics of Alternative Models of Corporate Governance	42
Table 2.3 :	The OECD Principles of Corporate Governance	44
Table 3.1 :	Board Roles	85
Table 6.1 :	Nationalised Companies 1958-1960	151
Table 6.2 :	Legal Status and Characteristics of ISOEs	157
Table 6.3 :	ISOEs Financial Performance by Industry Group	171
Table 6.4 :	Targeted Financial Performance of ISOEs 2002-2006 by Revenues	174
Table 6.5 :	ISOEs Financial Performance 2001-2004 by Profits	175
Table 6.6 :	List of ISOEs Subject to Privatisation Programme	184
Table 8.1 :	Corporate Governance Score for the 16 ISOEs by Classification	243
Table 8.2 :	Corporate Governance Score for the 16 ISOEs by Business Area	243
Table 8.3 :	The Average Score for Privatised and Non-Privatised ISOEs	244
Table 8.4 :	The Instruments of Good Corporate Governance	244
Table 8.5 :	Score Based on Corporate Governance Aspects	254

List of Figures

Figure 2.1	: Basic Black Box Model of Limited Liability Company	24
Figure 2.2	: Governance and Management	52
Figure 3.1	: The One-Tier Board Structure	65
Figure 3.2	: The Two-Tier Board Structure	67
Figure 3.3	: A Framework for Board Activities	92
Figure 6.1	: The Impact of Public Reform on SOE Objectives	169
Figure 7.1	: Basic Model of Corporate Governance Structure in the ISOEs	191

List of Boxes

Box 2.1	: Difficulties in Enforcing Equitable Treatment of Shareholders	50
Box 3.1	: Five Categories of Members of the Board	63
Box 7.1	: The Sale of PT Krakatau Steel Shares	197
Box 7.2	: Strengthen the Replacement Process in the ISOEs	198
Box 7.3	: Is There an Ideal Size for a Board?	207
Box 8.2	: Corporate Governance Reform in one ISOE	254
Box 9.1	: Accountability Fails to Do Its Job	282

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

EKUIIN (*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

Meneg PBMUN (*Kementrian Negara Bidang Pemberdayaan Badan Usaha Milik Negara*) = the State Ministry for the Empowerment of ISOEs

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