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CORPORATE GOVERNANCE, GOVERNMENT
INTERVENTION AND PERFORMANCE OF STATE OWNED
ENTERPRISES, INDONESIA



UUM
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Universiti Utara Malaysia

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**CORPORATE GOVERNANCE, GOVERNMENT
INTERVENTION AND PERFORMANCE OF STATE OWNED
ENTERPRISES, INDONESIA**



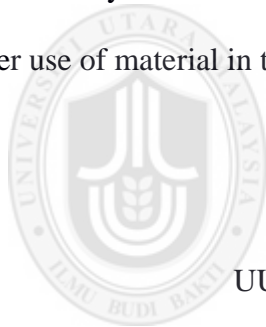
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**Thesis Submitted to
Othman Yeop Abdullah Graduate School of Business
University Utara Malaysia
In Fulfillment of the Requirement for the Degree
Doctor of Business Administration**

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ABSTRACT

This study examines the relationship between corporate governance, government intervention as a moderating variable and firm performance of Indonesian State Owned Enterprises (SOEs). According to the survey, it is found that the position of the implementation of corporate governance in Indonesia was still the worst among 11 countries located in the Pacific region. Data from 63 SOEs were collected and processed using PLS structured equation modelling to gauge the extent of the relationship. The result demonstrates that the relationship of most corporate, government indicators with ROA is positive except for the Independent Commissioner and the Independent Director. The relationship is significant only on the Independence of Committees and Supervisory board size variables. The results for ROE are also almost the same as ROA's. The relationship is positive for the Independent Director, Independence of Committees, Supervisory board size, Supervisory Board Meetings, Competence of Audit Committee, Reputation of Auditors and Audit Committee Meetings. The government intervention indicators of the appointment of senior executives, regulation and monitoring, and political pressure have positive effects on the relationship between certain corporate governance indicators and firm performance, but the influence is not significant. This result indicates that there are influences from the government to SOEs for good governance and performance. The study combines ten parameters of corporate governance and three parameters of government intervention to explore the performance of Indonesian SOEs that has added to the body of knowledge of corporate governance and the agency theory. The results of this study have practical implications for the Indonesian regulatory authorities to establish and revise the corporate governance practice standards tailored to the Indonesian unique background. The future direction of this research can be developed by changing or adding variables and broadening its scope.

Keywords: corporate governance, government intervention, firm performance, Indonesia

ABSTRAK

Kajian ini bertujuan untuk melihat hubungan antara tadbir urus korporat, campur tangan kerajaan sebagai penyederhana dan prestasi firma milik negara Indonesia (SOE). Kajian mendapati kedudukan pelaksanaan tadbir urus korporat di Indonesia masih berada pada tahap yang paling buruk di antara 11 buah negara di rantau Pasifik. Data-data yang dikumpulkan dari 63 SOE diproses menggunakan *PLS* Permodelan Persamaan Berstruktur untuk mengukur sejauh mana hubungan tersebut. Dapatan menunjukkan kebanyakan ciri-ciri tadbir urus korporat dan ROA mempunyai hubungan yang positif, kecuali bagi ciri-ciri Pesuruhjaya Bebas dan Pengarah Bebas. Hanya terdapat hubungan yang signifikan bagi pemboleh ubah Jawatankuasa Bebas dan saiz Lembaga Pengawalselia. Keputusan bagi ROE juga hampir sama seperti ROA. Terdapat hubungan yang positif dengan Pengarah Bebas, Jawatankuasa Bebas, saiz Lembaga Pengawalselia, mesyuarat Lembaga Pengawalselia, kecekapan Jawatankuasa Audit, reputasi Juruaudit dan mesyuarat Jawatankuasa Audit. Petunjuk bagi campur tangan kerajaan ke atas pelantikan eksekutif kanan, peraturan dan pemantauan, dan tekanan politik mempunyai kesan yang positif ke atas hubungan di antara sebahagian penunjuk tadbir urus korporat dengan prestasi firma, tetapi pengaruh ini tidaklah signifikan. Keputusan ini menunjukkan bahawa terdapat pengaruh pihak kerajaan terhadap tadbir urus yang baik dan prestasi SOE. Kajian ini telah menggabungkan sepuluh parameter tadbir urus korporat dan tiga parameter campur tangan kerajaan untuk menilai prestasi SOE di Indonesia, serta memperkayakan karya dalam bidang tadbir urus dan teori agensi. Hasil kajian ini juga mempunyai implikasi praktikal untuk pihak berkuasa Indonesia bagi mewujudkan dan menyemak semula piawaian amalan tadbir urus korporat yang disesuaikan dengan latar belakang negara Indonesia yang agak unik. Kajian masa hadapan boleh dilakukan dengan menukar atau menambah pemboleh ubah bagi meluaskan lagi skop penyelidikan.

Kata kunci: tadbir urus korporat, campurtangan kerajaan, prestasi firma, Indonesia

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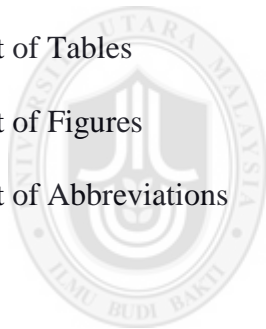
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List of Abbreviations

AC	Audit Committee
ADB	Asian Development Bank
APEC	Asia-Pacific Economic Corporation
AoA	Articles of Association
BKPM	Badan Koordinasi Penanaman Modal
BOC	Board of Commissioner
BOD	Board of Directors
CG	Corporate Governance
CV	Commanditair Vennootschap
CLSA	Credit Lyonnais Securities Asia
DJ-PBUN	Direktorat Jenderal Pembinaan Badan Usaha Negara
eBAE	elektronik Biro Administrasi Efek
FCGI	Forum for Corporate Governance in Indonesia
FDI	Foreign Direct Investment
FTSE	Financial Times Stock Exchange
GCG	Good Corporate Governance
GDP	Gross Domestic Product
GmoS	General Meeting of Shareholders
HIH	Heath International Holdings Insurance
ICL	Indonesian Corporate Law
IDX	Indonesia Stock Exchange
IFC	International Finance Corporation
IGAAP	International Generally Accepted Accounting Principles
KNKG	Komite Nasional Kebijakan Governance

KSEI	Kustodian Sentral Efek Indonesia
NPEA	Non-Performing Earning Assets
NPL	Non-Performing Loan
OECD	Organisation for Economic Co-operation and Development
OJK	Otoritas Jasa Keuangan
PC	Private Companies
PKPN	Pusat Kebijakan Pendapatan Negara
PLS	Partial Least Square
PT	Perseroan Terbatas
USD	US Dollar
ROA	Return on Asset
ROE	Return on Equity
SEM	Structural Equation Modelling
SOE	State-Owned Enterprises



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CHAPTER I

INTRODUCTION

1.0 Background of the Study

Corporate governance is a major concern after the financial scandals at Adelphia (2002), Enron (2001), and WorldCom (2002). The scandal has become a reason for the United States (US) government to issue a new law called the Sarbanes-Oxley Act in 2002 to protect investors. The said law of corporate governance was the most influential act since the failure of the market in the 1930s. The structure of corporate governance has traditionally been a private matter between shareholders and managers with some restrictions to law.

The main weakness of corporate governance principles in the post-Enron period is due to the concentration of power at top management levels (Tipgos & Keefe, 2004). Concentrated ownership combined with an ineffective of external governance mechanisms, will generally lead to conflicts between controlling shareholders and minority shareholders (Young, Peng, Ahlstrom, Bruton and Jiang. 2008). As a result, the decisions of the controlling shareholder have led to poor performance of many companies in East Asia. Therefore, the realignment of power within the company is a need to be able to control the abuse of management (Nam & Nam, 2004).

The economic crisis of 1997 in Asian countries: Indonesia, Malaysia, the Philippines, Thailand and the Republic of Korea was caused by the failure to implement good corporate governance (Asian Development Bank, 2000). Performance factors of bad corporate governance, according to the Asian Development Bank (ADB), among others, include: (a) the presence of ownership concentration (between 57% to 65%);

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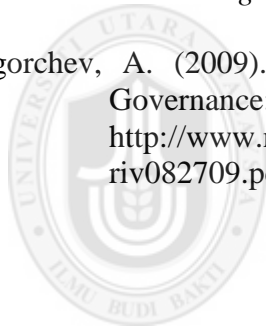
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