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THE EFFECT OF GOOD CORPORATE GOVERNANCE ASSESSMENT ASPECTS ON THE HEALTH LEVEL OF STATE-OWNED ENTERPRISES

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ABSTRACT

Introduction/Main Objectives: The study aims to determine the effect of the implementation of Good Corporate Governance (GCG) with variable aspects of GCG assessment on the performance of companies and subsidiaries of State-Owned Enterprises (SOEs) which is measured as the Company's Health Level. **Background Problems:** GCG is related to the Company's Health Level, because the success of achieving targets and company performance will depend on good management of company resources. **Novelty:** 6 (six) aspects of GCG assessment become independent variables while the Company's Health Level is the dependent variable. **Research Methods:** Research is descriptive statistics with quantitative, deductive, explanatory and confirmatory approaches to test the causality of the relationship. **Finding/Results:** From the research, it was found that aspects of shareholders, board of commissioners and practices of GCG implementation have an influence on the Company's Health Level, while aspects of commitment to sustainable GCG implementation, directors and information disclosure and transparency have not had an influence on the Company's Health Level. **Conclusion:** The implementation of GCG has not had a significant influence on the Company's Health Level, as evidenced by the high average score per aspect of GCG assessment, but the average score of the Company's Health Level is not too high and has not achieved very satisfactory results.

Keywords: Good Corporate Governance (GCG), Agency Theory, Stakeholders Theory, Corporate Health Level (TKP), GCG Assessment, State-Owned Enterprises (SOEs), General Meeting of Shareholders (GMS).

1. Introduction

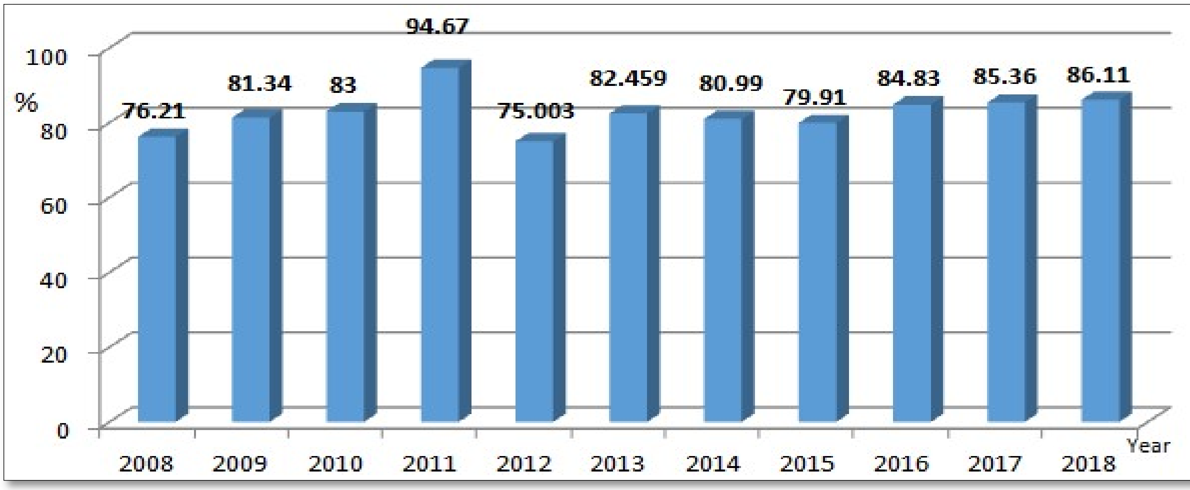
State-Owned Enterprises (SOEs) are business entities that have an important role in the implementation of the national economy in order to realize community welfare (Anis Mashdurohatun, 2021; Antonio Capobianco, 2011; Darmawan, 2021; Genin, Tan, & Song, 2021; Mansor & Abdullahi, 2015; Putniņš, 2015; Vousinas, 2019). SOEs are one of the actors of economic activity in the national economy based on economic democracy, which also faces global competition so that it is required to manage resources efficiently and effectively (Cerny, 1999; Collier, Van Der Ploeg, Spence, & Venables, 2010; Jean J. Boddewyn, 1994; Karsam, 2017). The role of SOEs in supporting the economy is still needed through dividends and taxes deposited into the State treasury (Ansari, 2019; Fan, Morck, & Yeung, 2011; Huat, 2015; Sachs & Woo, 2001; Tsamenyi, 2005; Wedeman, 2003).

The achievement of targets and performance of state-owned companies since 2002 is assessed and measured using the assessment of the Company's Health Level in accordance with the Decree of the Minister of SOEs No.KEP-100 / MBU / 2002 dated June 4, 2002 concerning the Assessment of the Health Level of State-Owned Enterprises (SOEs), which was later updated by the Regulation of the Minister of SOEs No. PER-10 / MBU / 2014 dated July 25, 2014 concerning Indicators of Health Level Assessment of SOEs Financial Services in the Insurance and Guarantee Business Sector. The performance of state-owned companies that are assessed is strategic performance, which is important for the company, especially in the use of resources, has an overall and long-term impact, and considers the sustainability of the company (Brockett & Rezaee, 2012; Doh & Teegen, 2002; Hilson & Murck, 2000; Ongore & Owoko, 2011). This performance measurement standard is carried out not only for state-owned companies, but also for subsidiaries and grandchildren of state-owned companies, including in many private companies in Indonesia.

Good company performance is obtained from good company management. Company management includes the management of all company resources ranging from systems, people, company regulations, equipment and technology. At the same time as the start of measuring company performance with the Corporate Health Level in 2002, state-owned companies have begun to implement GCG since the enactment of SOE Minister Decree No. 117 of 2002 concerning the Obligation to Implement GCG in SOE Companies. In 2011, the provisions on the obligation to implement GCG in state-owned companies were updated with SOE Minister Regulation No. 01 of 2011 concerning the Implementation of Good Corporate Governance (GCG) in SOE Companies.

If the Company's Health Level as a standard for evaluating company performance whose results are in the form of a score in percentage (%), then the implementation of GCG in companies and SOE subsidiaries needs to be assessed as well (Cheong, 2021; A. Cheong, S. Cho, W. G. No, & M. A. Vasarhelyi, 2019; A. Cheong, S. H. Cho, W. G. No, & M. Vasarhelyi, 2019; George Siokos, 2010; Nierman, 2007). According to the recap of the report on the Ministry of SOEs website, the average total GCG score of state-owned companies from 2008 to 2018 tends to continue to increase, as shown in graph 1. Before 2008, the average GCG score was still not very good and did not have a standard assessment and there were still several state-owned companies that had not implemented GCG as required by the Ministry of SOEs.

Graph 1. Bar Chart of Average GCG Score of SOEs



Source : Ministry of SOEs Website

2. Literature Review

There are 2 (two) main concepts in this study that are the focus of observation. The first is the concept of Corporate Health Level as a measurement and performance assessment tool for state-owned companies, and the second is the concept of GCG.

Corporate governance frameworks can influence markets, research and development as well as innovation activities, and development of the Small and Medium Enterprises sector, thereby affecting economic growth (Andersson, 2000; Claessens, 2006; Randall Morck, 2005). Good corporate governance is argued to be able to improve financial performance by reducing corporate problems such as minimizing theft of company wealth, manipulation of income, and excessive management compensation (Mueller, 2006; R. M. B. a. A. J. Smith, 2003), and all corporate governance mechanisms are targeted at increasing shareholder wealth (Lazonick & O'Sullivan, 2010; Nikoskelainen & Wright, 2007; Renneboog & Szilagyi, 2011; Ronald W. Masulis, 2007).

Better managed companies are relatively more profitable, more valuable, and give shareholders more money (Keim, 2001; Lawrence D. Brown, 2004; Rafael La Porta, 2000; Vishny, 1997). The capital adequacy ratio as one of the external measures in corporate governance, statistically has a statistically significant positive effect on the performance of Banks in Nigeria (Fanta, 2013). External factors of corporate governance, i.e. prudential measures in supervision such as capital requirements, credit classification, provision of certain credit risks, bank liquidity and deposit insurance affect the performance and development of the banking sector in Romania (Chitan, 2012). There is a significant impact of corporate governance on the performance of the insurance industry in Bahrain (Najjar, 2012). Corporate governance is positively correlated with share prices and there is sufficient evidence to conclude that corporate governance is a component of risk equity and there is a positive relationship between the level of disclosure as an element of good corporate governance and company performance (Abdo & Fisher, 2015).

How much success, the size of the profit and the extent to which the achievement of the target is assessed as the level of health of the company (Akande, 2011; Helmig, Ingerfurth, & Pinz, 2014; Morris, Koçak, & Ozer, 2007; Yaron, 1994). The health level of the company is the result or output of a process ((Bello & Gilliland, 1997; Littlepage, Schmidt, Whisler, & Frost, 1995; Nwobi-Okoye, Okiy, & Igboanugo, 2016; A. W. Smith, 1997).

The health level of the company is closely related to the strategy, because the health level is the result of actions while the actions taken are the implementation of the strategy (Epstein & Roy, 2001; Ittner, Larcker, & Randall, 2003; Pathak, 2009; Thomas, Clark, & Gioia, 1993). The company's health level is the achievement of an activity that is expected to contribute to the declared strategic goals (Atkinson, Waterhouse, & Wells, 1997; Moore, 2003; Pathak, 2009; Poister, Pasha, & Edwards, 2013). Measuring the health of the company has an important role in translating the results of organizational strategy (Lingle & Schiemann, 1996; Pun & White, 2005; Richard, Devinney, Yip, & Johnson, 2009; Rogers & Wright, 1998).

The level of health assessed in state-owned companies is comprehensive, important for the company and long-term, so the company's health level is a strategic performance assessment. Strategic performance is an assessment of the quality of company transformation which is not only on the results and an assessment of the satisfaction of all stakeholders, not just shareholders (Chakravarthy, 1986). The level of corporate health is a measure of the achievement of company performance, especially strategic and important performance measures for the company (Atkinson et al., 1997; Dossi & Patelli, 2010; Gunasekaran, Patel, & McGaughey, 2004; Kaplan & Norton, 2001).

Assessment of the Health Level of SOE Companies consists of 3 (three) aspects, namely Financial aspects, Operational aspects and Administrative aspects. In the comparison of the composition of the three aspects of the Company's Health Level, aspects related to financial performance are more dominant than the performance of other fields indicated by operational aspects and administrative aspects (Griffin & Mahon, 1997; Joshi, Cahill, Sidhu, & Kansal, 2013; Low & Siesfeld, 1998).

The concept of corporate health level refers to the theory of Resource Based View, because it is related to optimization strategies and utilization of existing resources in the company to create advantages and increase company competitiveness. Excellence and competitiveness will be obtained if these resources have high value, are unique, difficult to replicate and rare (J. Barney, 2001; Jay B Barney, 1991; Jay B. Barney, 1996, 2016; Carsten Gelhard, 2016; Kloot & Martin, 2000; Naranjo-Gil, 2009).

The categories of assessment of the Health Level of the Company and its subsidiaries are listed in table 1 below.

Table 1. Category of Health Level Assessment of State-Owned Companies

HEALTHY	
Score (%)	**Predicate Assessment**
TS > 95	AAA
80 < TS ≤ 95	AA
65 < TS ≤ 80	A
LESS HEALTHY	
50 < TS ≤ 65	BBB
40 < TS ≤ 50	BB
30 < TS ≤ 40	B
UNHEALTHY	
20 < TS ≤ 30	CCC
10 < TS ≤ 20	CC
TS ≤ 10	C

Source : Kepmen BUMN No.100 Tahun 2002

In Indonesia, the concept of GCG began to be known since the economic crisis in 1997-1998, a prolonged crisis was assessed due to the non-management of companies responsibly, as well as ignoring regulations and full of Collusion, Corruption and Nepotism practices (Kaihatu, 2006; Syarif Usman, 2021). Starting from a proposal to improve the listing regulations on the Jakarta Stock Exchange (now the Indonesia Stock Exchange) which regulates regulations for issuers listed on the JSE which requires to appoint independent commissioners and establish an audit committee in 1998, so that GCG began to be introduced to all public companies in Indonesia.

According to the Cadbury Committee of the United Kingdom, GCG is a set of regulations that regulate the relationship between shareholders, company management, creditors, government, employees, and other internal and external stakeholders related to their rights and obligations (Mulili & Wong, 2011; Setyahadi & Narsa, 2020). GCG is a set of regulations that regulate, manage and supervise the relationship between company managers and stakeholders in a company to increase company value (Andriana & Panggabean, 2016; Mahrani & Soewarno, 2018; Mukhtaruddin, 2014; Rita Syofyan, 2020). Companies that improve GCG quality show an increase in market valuation, while companies that experience a decrease in GCG quality, tend to show a decrease in market assessment (Mok & Cheung, 2011; A. S. Yan-Leung Cheung, and Weiqiang Tan, 2011; J. T. C. Yan-Leung Cheung, Ping Jiang, and Piman Limpaphayom, 2011).

GCG is the management of the company in accordance with the provisions of applicable laws and regulations (Dasuki & Lestari, 2019; Ibrahim, 2006; Rita Syofyan, 2020; Sternberg, 1998; Yuksel, 2008). GCG aims to increase value or benefits to all stakeholders or interested parties, not just shareholders or shareholders / owners (Abor & Adjasi, 2007; Bottenberg, Tuschke, & Flickinger, 2017; Carney, Gedajlovic, & Sur, 2011; Heath & Norman, 2004; Welford, 2007) GCG in state-owned companies is applied based on the principles of transparency, accountability, responsibility, independence, and fairness (Akingunola, Adekunle, & Adedipe, 2013; Kholmi, 2020; Rita Syofyan, 2020; Rustam & Narsa, 2021; Setyahadi & Narsa, 2020).

One of the objectives of implementing GCG is to provide value and benefits not only to shareholders or owners, but to all stakeholders, so that stakeholder theory becomes the scientific basis for implementing GCG. Stakeholder theory states that the company is not an entity that only operates for its own interests, but must provide benefits to its stakeholders (R. Edward Freeman, 2001; Gibson, 2000; Michael C Jensen, 2017; Orts & Strudler, 2002; Phillips, Freeman, & Wicks, 2003), among others, shareholders, creditors, consumers, suppliers, government, society, analysts and other parties. Stakeholder theory is a concept of strategic management (Ackermann & Eden, 2011; Bonnafous-Boucher & Rendtorff, 2016; R Edward Freeman, Harrison, Wicks, Parmar, & De Colle, 2010; R Edward Freeman, Phillips, & Sisodia, 2020; Mahoney, 2012).

Stakeholder theory aims to explain how to help corporations strengthen relationships with external groups and develop a firm's competitive advantage to adapt (Berman, Wicks, Kotha, & Jones, 1999; Hörisch, Freeman, & Schaltegger, 2014; T. M. Jones, Harrison, & Felps, 2018; Svendsen, 1998). Stakeholder theory is a theory that combines the interests of a wider range of stakeholders within an entity, not just shareholders. The weakness of stakeholder theory lies in the focus of the theory which is only focused on the ways used by companies in managing their stakeholders.

The next theory that underlies the central role in the concept of Good Corporate Governance, is Agency Theory which discusses the problem of the relationship between directors as agents and owners of the Company (Kamal, 2010; Kivistö, 2007; Michael C. Jensen, 1976; Tricker, 2020). Agency theory arises when there is a cooperative contract relationship between agents (managers) and principals (shareholders) is not harmonious and not in line (Eisenhardt, 1989; C. W. L. H. a. T. M. Jones, 1992; Luh Luh Lan, 2010; Michael C. Jensen and Clifford W. Smith, 2000; Panda & Leepsa, 2017; Shankman, 1999).

In the relationship between shareholders as company owners and managers or directors who manage the company, there are 3 (three) asymmetric inequalities, namely related to interests, risk choices and information held about the company (Luh Luh Lan, 2010; Meckling, 1976; Michael C. Jensen and Clifford W. Smith, 2000; Mitnick, 1975). The relationship in agency theory in addition to causing agency problems also causes agency costs, namely costs incurred related to efforts to eliminate agency problems, both from the principal as a shareholder and from the agent as the manager, such as audit costs, and others (Fama & Jensen, 1983; James J. Chrisman, 2004; Michael C. Jensen, 1986; Meckling, 1976; Sorensen, 1986).

As a consequence of the implementation of GCG in accordance with SOE Minister Regulation No. 01 of 2011, GCG assessment must be carried out using SK-16 / S.MBU / 2012 criteria. The assessment is carried out on 6 (six) aspects, which are used as independent variables, namely: Commitment to Sustainable GCG Implementation, Shareholders and GMS/Capital Owners, Board of Commissioners/Supervisors, Board of Directors, Information Disclosure and Transparency, and other aspects. Details of GCG assessment indicators, parameters and conformity test factors (FUK) are listed in table 2 below.

Table 2. GCG Assessment Indicators, Parameters & Conformity Test Factors (FUK)

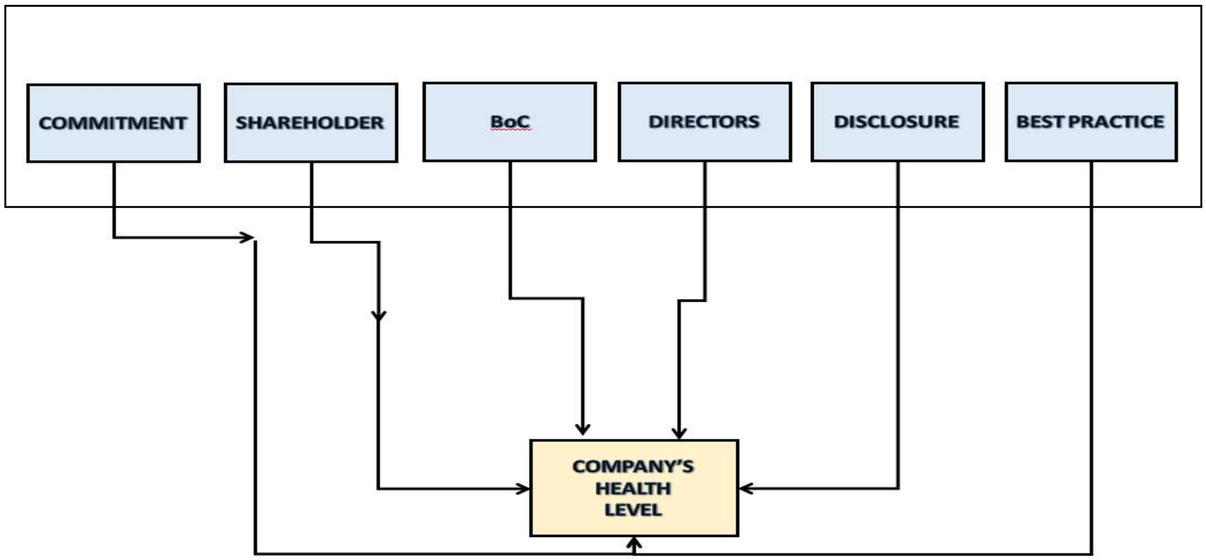
Assessment Aspect	**SK-16 / 2012**			
	Indicator	**Parameter**	**Weight**	**FUK**
Commitment to Sustainable GCG Implementation	6	15	7	47
Shareholders & GMS	6	25	9	68
Board of Commissioners / Supervisors	12	43	35	167
Management	13	52	35	202
Information Disclosure & Transparency	4	16	9	76
Other Aspects	2	2	5	12
T O T A L	43	153	100	572

Source : Letter of the Secretary of the Ministry of SOEs No. SK-16 of 2012

3. Method, Data, and Analysis

This study is a deductive, explanatory and confirmatory research to examine the causalityrelationship between variables of GCG assessment aspects with Company Health Level variables. This research is also descriptive statistical with a quantitative approach, with a detailed research model as shown in figure 1 below.

Figure 1. Research Model Mindset



From the results of previous studies related to the relationship between GCG and performance, it is prepositioned that the implementation of good corporate governance observed from the aspect of GCG assessment will increase the Company's Health Level score, the better the GCG score, the higher the Company's Health Level score. Next, it was hypothesized that the score value per aspect of GCG affects the value of the Company's Health Level score.

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The equation with 6 (six) independent variables in GCG assessment aspects and dependent variables for the Company's Health Level is as below :

$$Y = a_1 + b_1 X_1 + b_2X_2 + b_3X_3 + b_4X_4 + b_5X_5 + b_6X_6 + e \quad (1)$$

Where; Y = variable level of health of the company; X1 = Commitment Variable; X2 = shareholder variable; X3 = Board of Commissioners variable; X4 = Directors Variable; X5 = Disclosure Variable and X6 = Best Practice Variable.

The type of data used is secondary data on GCG assessment aspect scores and Company Health Level scores in the company's annual reports for 2021 and 2022, which are published on each company's website. The population of all companies and subsidiaries of SOEs, while data samples are taken from companies and several subsidiaries of SOEs that have the data needed by the company's website. Sampling using Purposive Sampling technique with consideration of several adjustments. The number of samples is determined using the Slovin formula with a margin of error tolerance of 5% of the population.

4. Result and Discussion

The number of data (N) obtained was 158 GCG assessment score data and Health Level scores of companies and SOE subsidiaries, from 89 (eighty-nine) companies in the 2021 and 2022 assessments.

Table 3. Descriptive Statistics Details of GCG Assessment of SOE Companies and Subsidiaries in 2021 and 2022 (in %).

Description	Commitment	Shareholders	BoC	Directors	Disclosure	Best Practice
Mean	6.5607	8.1275	32.0847	31.8267	7.8494	2.0589
Std. Dev.	0.47116	0.66808	2.52677	2.56535	1.14461	2.04384
Minimum	4.097	5.92	16.06	14.48	1.09	-1.00
Maximum	7.00	9.00	34.92	34.88	9.00	5.00

Table 4. Discriptive Statistics of the Health Level Score of SOEs and SOE Subsidiaries in 2021 and 2022 (in %)

Description	Corporate Health Level
Mean	72.7729
Std. Deviation	15.03981
Minimum	34.00
Maximum	100.00

The highest Company Health Level (TKP) score was 100%, obtained by PT PLN Nusantara Power (ex. PJB) and PT Indonesia Power in the 2022 assessment, while the lowest TKP score was 34% obtained by PT Pertamina Energy Terminal in the 2021 and 2022 assessments.

Table 5. Multiple Linear Regression Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	44.647	19.297		2.314	0.022
Commitment	-4.019	3.625	-0.126	-1.109	0.269
Shareholders	-5.873	2.009	-0.261	-2.924	0.004
BoC	2.082	0.913	0.350	2.281	0.024
Directors	0.969	0.959	0.165	1.010	0.314
Disclosure	-0.006	1.277	0.000	-0.005	0.996
Best Practice	2.259	0.637	0.307	3.548	0.001

From table 7, for multiple linear regression, the variables of shareholders, board of commissioners and best practices have a significance value below 0.05, which means that these three variables have a significant effect on the variable of the Company's Health Level. Conversely, from table 7, it is found that the variables commitment, directors and disclosure have a significance value of more than 0.05, which means that these three variables do not have a significant effect on the variable of the Company's Health Level. From table 7, an equation is also obtained that describes the relationship between variables of GCG assessment aspects with variables of the Company's Health Level, with the equation, namely:

$$TKP = 44{,}647 - 4{,}019Komit - 5{,}873PS + 2{,}082Dekom + 0{,}969Dir - 0{,}006Discl + 2{,}259BP + e \quad (2)$$

Previous studies have concluded that certain organs and / or devices in the implementation of GCG in a company such as audit committees, internal supervision units, gratification control units and / or whistle blowing systems, the application of risk management, ISO-37001 anti-bribery, generally have a direct or indirect influence on company performance, but there are several studies that conclude that they have not had a direct influence.

The concept of GCG is based on agency theory and stakeholder theory. The shareholder aspect and the board of directors aspect are the 2 (two) main organs of the company that have problems and conflicts in relation according to agency theory (Michael C. Jensen, 1976; Eisenhardt, 1989), while the aspect or variable of the Board of Commissioners is an organ formed as a way out of solving problems between shareholders and directors in agency theory (Christiawan, 2015; Usman, 2021). Stakeholders theory is the basic concept of the purpose of implementing GCG, one of which is to provide benefits not only to shareholders but to stakeholders (Freeman, 2001; Phillips, 2003; Freeman, 2010; Keim, 2001). Stakeholder theory is also the basis for GCG assessment on aspects / variables of information disclosure and transparency (Abdo, 2015; Smith, 2003), so that in addition to providing benefits to stakeholders, on the contrary also providing benefits to companies related to supervision and control carried out (Hörisch, 2014; Freeman, 2020). These benefits can be in the form of appreciation and appreciation given by stakeholders to the company, so that it will improve the positive image and reputation of the company.

Related to previous research, in the relationship of good corporate governance with performance, which affects and improves performance, corporate governance can spur performance and increase economic growth (Andersson, 2000; Randall Morck, 2005). The implementation of GCG or good corporate governance affects and improves company performance (Darwis, 2009; Bukhori, 2012). A well-managed board of commissioners and directors improves company performance (Fanta, 2013; Chitan, 2012). The implementation of GCG also affects and improves the company's financial performance (Christiawan, 2015; Ernawati, 2010; Najjar, 2012).

Knowing the aspects of GCG assessment that affect the Company's Health Level is one of the strategies to improve company performance by encouraging the implementation of these influential aspects and improving aspects of GCG assessment that still have no significant effect by making improvements and fulfilling the provisions as required in the indicators and conformity test factors of GCG assessment.

4. Conclusion and Suggestion

From this study can be concluded :

- From testing the influence of independent variables in GCG assessment aspects, namely variables of commitment, shareholders, board of commissioners, directors, disclosure and best practices, only variables of shareholders, board of commissioners and best practices that affect the Company's Health Level.
- It is also concluded that the 3 (three) variables that affect the Company's Health Level, namely shareholders, the board of commissioners and best practices have contributed an assessment weight of more than 40% but less than 45% of the total GCG score, where the average GCG score is above the average Company Health Level score.
- The average Corporate Health Level score of 89 (eighty-nine) state-owned companies and subsidiaries in the 2021 and 2022 periods of 72.77% is included in the Healthy A category which is in the interval range of 65 - 80%, but the average score is not satisfactory and has not shown optimal performance, as a result of the impact of the Covid-19 pandemic and PPKM (Enforcement and Restrictions on Community Activities) by the Government in 2021 and the influence of Russia's war with Ukraine in 2022.

From this research also emerged suggestions, including ;

- Some companies that have GCG assessment scores, in accordance with SK-16 of 2012, have optimal achievement in terms of achieving scores per aspect, so that the area of improvement is limited and the score is close to being met (100%). We recommend that these companies use other GCG assessment standards, which provide more challenges in fulfilling their values.
- There needs to be an up-date, improvement and addition of new indicators in measuring the value or score of the Company's Health Level, which accommodates rapid technological changes and developments and increasingly complex risks.

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