

## The Implementation of Good Corporate Governance in BUMD Institutions



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**ABSTRACT:** This study talks about how many Regional-Owned Enterprises (BUMD) there are in the Indonesian economy. In this study, we look at the institutional aspects of BUMD, how BUMD helps the local economy, and how Good Corporate Governance (GCC) is used to run BUMD. The method used is to look at research articles from a variety of sources to learn about them. Government Regulation No. 54 of 2017 on Regional Owned Enterprises already has rules and regulations in place to make BUMD a legal entity that is owned by a regional government. This is because BUMD doesn't do a good job of running things, which means that the results haven't been able to generate new revenue that's equal to a big chunk of regional income. BUMD must be able to be run in accordance with Good Corporate Governance in order to make sure that local businesses are run properly and to help the region.

**KEYWORDS:** Bali, BUMD, Good Corporate Governance

### I. INTRODUCTION

Regional-Owned Enterprises (BUMD) are firms that are owned by local governments and exist to generate cash for local revenue (PAD). However, the reality is that existing BUMDs have been unable to generate a meaningful contribution to local revenue (PAD); in fact, local governments have injected more cash than profits can be earned. This condition adds to the APBD's load. Thus, the aim of establishing BUMD as a source of revenue for local governments is not accomplished (P2 LIPI 2010). Apart from promoting the community's wealth and welfare, Harahap, (2011) believes that regional companies or BUMDs exist to maximize profit in their line of activity in order to raise regional original income through dividends deposited in the regional treasury. Dividends received from the BUMD will subsequently be converted to local government revenues, enhancing the APBD's ability to finance regional development. The separation of the BUMD concept into business and community service has various repercussions. For BUMD that is business-oriented, financial gains are expected. Meanwhile, BUMD's community service orientation should enable it to address the demands and interests of the general public (Harahap, 2011)

In accordance with the principles of sound corporate governance described in the Minister of BUMN's Decree Kep-103/MBU/2002 establishing a BUMN audit committee. BUMN's condition is one step ahead of BUMD's economic activity, and even state-owned enterprises have transformed themselves into public companies by issuing stock on the stock exchange. One of the challenges in managing and developing BUMD is the institutional aspect of the organization, which provides direction and guidance on how to manage a regional business entity professionally and in accordance with the principles of good corporate governance in order to serve the interests of shareholders (BUMD owners) and stakeholders. (community at large). Additionally, a research is required on the management of BUMD that is capable of contributing to regional revenue growth. Several of the issues explored in this article include the following: what is the legal basis for the formation of BUMD?, what is the function of BUMD in generating regional income?, and how is BUMD managed in an effort to achieve good corporate governance?

### II. METHOD

This is a systematic evaluation of the literature that demonstrates how the research and development technique is used to combine and assess relevant research on a certain topic. The objective of a systematic review of the literature is to analyze, identify, evaluate, and interpret all research on an interesting topic that addresses a number of problems in a specific area of inquiry (Sugiyono, 2015). This study makes use of descriptive analysis, which is a method of presenting facts in a methodical fashion, followed by an explanation and rationale for the reader.

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### III. RESULT AND DISCUSSION

#### 1. Legal Aspect of BUMD

The development of BUMD is inseparable from the development of policies related to State-Owned Enterprises (BUMN). In 1960, the Government considered that it was necessary to immediately endeavor to implement the Government's general program in the economic sector so that there was a reorganization of the means of production and distribution aimed at the implementation of Article 33 of the Constitution so that there would be uniformity in the way of administering and controlling as well as the form of Therefore, the Government issued a Peraturan Pengganti Undang-undang (Perpu) Number 19 of 1960 concerning State Enterprises . In line with the needs of the national economy and the development of the business world as well as Law Number 17 of 2003 concerning State Finances resulted in Perpu Number 1 of 1969 concerning Forms of State Enterprises, Government Regulation Number 12 of 1998 concerning Limited Liability Companies (Persero) and Government Regulation Number 13 1998 concerning Public Companies is not in accordance with the needs of the economy and the business world. Therefore, the Government and the DPR issued Law No. 19 of 2003 concerning State-Owned Enterprises which stipulates that there are only 2 (two) forms of state-owned enterprises, namely:

- a. Company is a BUMN in the form of a limited liability company whose capital is divided into shares of which all or at least 51% (fifty one percent) of the shares are owned by the Republic of Indonesia whose main purpose is to pursue profit.
- b. Public Company is a BUMN whose capital is entirely owned by the state and is not divided into shares, which aims for the public benefit in the form of providing high-quality goods and/or services and at the same time pursuing profits based on the principles of corporate management.

Regional Enterprises Statute No. 5 of 1962 is a law whose development was influenced by the publication of Perpu No. 19 of 1960 regulating State Companies. Regional Companies, as defined in Law No. 5 of 1962 on Regional Enterprises, are businesses whose entire or a substantial portion of their capital is derived from distinct regional assets. Specifically for regional banks, Law No. 13 of 1962 on the Fundamental Provisions of Regional Development Banks. In 1998, pursuant to Permendagri No. 1 of 1998 on Regional Development Banks' Legal Forms, a regional corporation's legal form might be transformed to a limited liability company. According to Article 3 paragraph (1) of the Minister of Home Affairs Regulation, BPDs with the legal form of Regional Companies are subject to the Regional Companies Law, while paragraph (2) emphasizes that BPDs with the legal form of a Limited Company (PT) are subject to Law No. 1 of 1995. Article 4 of the Minister of Home Affairs gives the Governor the authority to convert the BPD from a Regional Company (PD) to a PT.

Implementing regulations from the Minister of Home Affairs for Law No. 5 of 1962, which deals with Regional Companies, deal with things like how Regional Companies can be set up.:

- a. Regulation of the Minister of Home Affairs Number 1 of 1984 concerning Procedures for Guidance and Supervision of Regional Companies
- b. Regulation of the Minister of Home Affairs Number 3 of 1990 concerning the Management of Property of Regional Companies.
- c. Regulation of the Minister of Home Affairs Number 3 of 1998 concerning the Legal Form of BUMD

Rule No. 3 from 1998 says that when BUMDs are legally formed, they can be in the form of regional companies or limited liability companies, but they can't have more than one person or one thing to pay (PT). Each BUMD must follow the rules that apply to its own type of business. For example, Regional Companies must follow the rules set out in Law Number 5 of 1962 about Regional Companies, and Limited Liability Companies must follow the rules set out in Law Number 1 of 1995 about Limited Liability Companies. When Law Number 22 of 1999 about Regional Government was passed, it was changed to Law Number 32 of 2004 about Regional Government. Then, regulations about how BUMDs should be formed didn't follow that. Law Number 23 of 2014, which deals with Regional Government, says that there are two types of BUMD, which are called Regional Public Company (Perumda) is a BUMD whose entire capital is owned by one Region and is not divided into shares. And the Regional Public Company (Perseroda) is a BUMD in the form of a limited liability company whose capital is divided into shares which are wholly or at least 51% (fifty one percent) of the shares are owned by one Region.

The history of BUMD can't be separated from Law Number 23 of 2014 about Regional Government, which deals with the general rules for Regional Owned Enterprises. Several things are regulated in Law Number 23 of 2014 about Regional Government, including the setting up of BUMDs. BUMDs are set up by regions based on their own rules. It can be a regional public company (perumda) and a regional company (perumda) (perseroda). The goal of setting up BUMD is:

- a. provide benefits for regional economic development in general

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- b. organize public benefits in the form of providing quality goods and/or services for the fulfillment of community needs in accordance with the conditions, characteristics and potential of the area concerned based on good corporate governance
- c. earn profit and/or profit. The establishment of the BUMD is based on regional needs and the feasibility of the BUMD business field to be formed

Law Number 23 of 2014, which deals with regional government, says that rules about how to set up BUMDs, how BUMDs work, and how BUMDs are run must be written down in more detail by the government. Following Law Number 23 of 2014 concerning Regional Government for three years, the Government issued a regulation in 2017 called Government Regulation Number 54 of 2017 concerning Regional Owned Enterprises, which is an implementation of the law. Government Regulation Number 54 of 2017 is the legal basis for managing BUMD. Among other things, BUMD is still lacking a work ethic, is too bureaucratic, inefficient, lacks market orientation, does not have a good reputation, is not very professional, and does not have a good name. Many local governments try to help BUMD too much, and the lack of clarity between making money and having to help the community can make BUMD not focus on its main goal.

In Government Regulation Number 54 of 2017, there are many special rules for BUMD. These rules include the authority of the Regional Head at BUMD, the establishment of BUMD, the amount of money it needs to start up, the number of staff members it needs, and how it should be run. Following the Government Regulation Number 54 of 2017, there were several more specific laws and regulations that dealt with BUMD. These laws and regulations include Permendagri Number 37, which deals with the appointment and dismissal of members of the Supervisory Board or members of Commissioners or Directors of Regional Owned Enterprises. Permendagri Number 37 of 2018 is about the Appointment and Dismissal of Members of the Supervisory Board or Members of the Board of Commissioners and Members of the Board of Directors of Regional Owned Enterprises. This is to make sure that the rules in Article 39 and Article 58 of Government Regulation Number 54 of 2017 about Regional Owned Enterprises are followed. Article 39 of the Government Regulation Number 54 of 2017 about Regional Owned Enterprises says that the Board of Commissioners of BUMD is chosen through a process that includes a fit and proper test stage that is done by a team or professional group. It is more complicated than the law that governs the appointment and removal of members of the BUMD Board of Commissioners. Permendagri No. 37, which came into effect in 2018, says that members of the BUMD Supervisory Board are appointed by KPM, and members of the Board of Commissioners are appointed by the General Meeting of Shareholders (GMS)

The selection of the members of the BUMD Supervisory Board in the form of Perumda and the members of the BUMD Board of Commissioners in the form of Perseroda is carried out through 3 (three) stages, namely the Administrative Selection Stage, the Fit and Proper Test Stage and the Final Interview Stage. In addition to regulating the election stages, Permendagri Number 37 of 2018 concerning the Appointment and Dismissal of Members of the Supervisory Board or Members of Commissioners and Directors of Regional Owned Enterprises also regulates the composition of members of the supervisory board or commissioners which may involve independent elements, elements of local government officials and/or or elements of central government officials. Permendagri Number 37 of 2018 concerning the Appointment and Dismissal of Members of the Supervisory Board or Members of Commissioners and Directors of Regional Owned Enterprises also regulates the appointment and dismissal of members of the Board of Directors of Perumda and Perseroda. The selection of members of the board of directors goes through 3 (three) stages, namely the Administrative Selection Stage, the Fit and Proper Test Stage and the Final Interview Stage. The final interview is conducted by the Regional Head and determines the candidates for the members of the board of directors for each position to be submitted to the KPM or the GMS. Thus, members of the board of directors for BUMD must obtain approval from the regional head which is carried out through an interview mechanism.

### **2. The role of BUMD in increasing regional income**

The main goal of Regional Enterprises is to help the people in their area and the country as a whole grow economically. They do this by putting a lot of emphasis on industrialization. So, a portion of the profits made by the Regional Company must go to the fund for the development of the area where the company is based. In addition, all public funds and resources (funds and forces) must be used to help the region grow. Cooperatives and the private sector must also be involved in the start-up of regional businesses. However, the private sector still agrees with the main idea that a regional company is a company that only owns assets in the area where it is based. a regional company is a company that is owned and run by the regional government. So that the shares of regional companies are split into priority shares and ordinary shares, where priority shares can only be controlled by the regions, either at the first level or the second level. Ordinary shares can be controlled by anyone. Even though, if a regional company has all of the assets of a region as its capital, it doesn't need to be in shares to be able to get money.

Based on the explanation of Article 5 above, it can be concluded that there are two types or patterns of BUMD, namely:

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- a. BUMD, which is oriented to public service, aims to provide adequate services to the community, so that for this type a BUMD is established whose core business is related to the distribution of needs that affect the lives of many people.
- b. Profit-oriented BUMDs are established solely to contribute to the Regional Government, usually these BUMDs have a more competitive core business, such as BUMDs engaged in banking and plantations.

This is what happened because of the Constitution (UUD): It said that autonomous regions should be able to run and manage their own homes the best way possible. There must be enough money to do this. It must have enough power and capability for the Autonomous Region, so money is needed. Regional businesses make a lot of money for the people who live there. In this case, there are also businesses that focus on the public good, as well as businesses that want to boost regional income and production. There are a lot of reasons to think that BUMD is becoming more important in terms of regional development. It is seen as a leader in a business sector that isn't yet popular with private businesses. It also helps small and medium-sized businesses grow. Some BUMDs can also help the region make money, either through taxes, dividends, or privatization money.

In general, the role of BUMD companies in economic activities and regional development can be seen in three ways: production, job opportunities, and regional income. In addition, BUMD has a lot of different jobs and responsibilities. The main ones are to implement government policies in the field of the economy and regional development, fertilize funds for regional development financing, encourage community participation in the business sector, meet the needs of goods and services for the public interest, and be a pioneer in activities and businesses that the private sector isn't interested in starting.

This part of managing regional revenue is very important. The main thing that needs to be looked at is how to manage local revenue (PAD). PAD must be part of the main source of money for regional autonomy to work. This shows that PAD is the most important measure of a region's ability to implement and achieve regional autonomy, so PAD is a good way to show how free a region is. From local taxes, regional levies, the results of regional wealth management, and other legal PAD, PAD can come from PAD, but it must be legal. PAD that comes from separate regional wealth management is income from Regional Companies (PD) or Regional Owned Enterprises (ROE) (BUMD). BUMD has a role in making the region more prosperous by giving PAD money in the form of dividends or taxes. One way to solve a problem with increasing PAD is to make BUMD play a bigger role. To figure out how important PD/BUMD is to a regional economy, look at the amount of added value it adds to the Gross Regional Domestic Product (GRDP) and how well it can take in labor. There are a lot of big problems that BUMD has to deal with as the business world grows. As a tangible sign of regional investment, BUMD will have to deal with more and more competition from the global market. There are two options for the BUMD: stay where it is, or change its vision, mission, and business strategy to stay on top of the competition and keep up with the times.

According to what it does, BUMD was set up to help with regional and national economic development in order to help people live in a just and prosperous society, which is why it was set up. However, until now, PD/BUMD has not reached this goal. The role of BUMD in generating PAD is still very small. On the other hand, BUMD is also seen as a business that wants to stay independent and make money so that it can keep BUMD's business going and help the community be more prosperous. As a result, BUMD is a big help in increasing PAD. As it turns out, regional economic activities and businesses that come from BUMD have been going on for a long time before the Law on regional autonomy was signed into law. BUMD optimization efforts need to be made to make sure that BUMDs can compete with the strengths of other economic sectors. This means that BUMDs need to become more professional and have the right facilities and infrastructure so that they can compete with other businesses.

In Makassar City, South Kalimantan, a study looked at the contribution of regional-owned businesses to regional original income. It found that the contribution of BUMD to PAD is still very low, with a contribution of 1.73 percent (Nurmiati et al., 2019). The same is true for research done in Berau, East Kalimantan, Indragili Hulu and other places in Riau Province and West Java. The results show that BUMD doesn't play a big role in the development of PAD in these places (Rosid, Heriasman and Suwaji, 2020, 2021, and 2022). (Novita & Suwaji, 2021). 2020) and Bali (Sukarmi & Budiasih, 2016). People in the area don't make much money because BUMD doesn't run its business well and doesn't manage its own money well (Novita & Nurhasanah, 2020; Nurmiati et al., 2019; Rosid et al., 2020; Sukarmi & Budiasih, 2016; Zuhadi, 2009 ). As long as there is good management, the company will be owned by the region and a source of income for the area. This is what good management looks like.

### 3. Good Corporate Governance in the management of BUMD

The problems that BUMD faces both inside and outside can, of course, affect how well BUMD does at managing regional wealth. BUMD can improve its business performance by taking these steps and actions: The Bureau of Financial and Monetary Analysis, Ministry of Finance, has a report on the results of a study on the business performance of non-PDAM BUMD. There are three strategy sections: business strategy, growth strategy, and company restructuring strategy.

- a. The Company's Business Strategy, which can be carried out by taking steps or actions to improve the company's performance, including by:

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- 1) External threats can be overcome by improving the quality of products and services, the quality of human resources, and the creativity and activity of marketing staff in looking for new ways to make the company better.
  - 2) Fix internal problems, such as by re-establishing the core business, getting rid of business units that always lose, and improving the organization's management system.
  - 3) Making the most of outside opportunities, such as by working together with other businesses that are similar or related. A joint venture or other form of cooperation can also be used to work together, and this can happen in many different ways.
  - 4) The second thing to do is to focus the business on businesses with a good chance of succeeding, find new customers, and look for new production methods that can make the business run more smoothly.
- b. To grow and develop the company in accordance with the agreed-upon size to achieve the company's long-term goals. As sales volume, market share, profit, and other things rise, BUMD is said to grow, too. Several things can be done to make sure the company keeps growing and developing, like focusing the business on important products, expanding the market, developing new products, and horizontal and/or vertical integration, to name a few.
- c. There are two ways to do this: a strategic and an operational way. In the strategic approach, for example, if the company can't meet consumer needs in line with its mission, it's important to do a thorough review of the business to look for changes and improvements. Another approach aims to change the company's operations but not its business strategy. In this regard, the steps that are usually taken to keep a business running well:
- 1) Implement cost cutting (savings). Costs that are not directly related to the company's main operational activities that immediately generate income are usually the first choice to be reduced, such as administrative costs, research and development, and marketing.
  - 2) Increase the income earned by various business techniques, such as price cutting, promotion enhancement, adding and improving customer service, improving distribution channels and improving product quality,

There should be more thought put into the BUMD businesses that have been running with low and limited performance in the past as well as the BUMD businesses that will be built in the future. This will help them do more to help the regional economy and finances. In general, though. This means that new BUMDs need to be set up and existing BUMDs need to be improved. A business feasibility study is done in a very thorough way, and it can be concluded that it will be able to produce viable products and services with very good (or very good) profit prospects. Increasing cooperation with businesses that are similar or related in order to make them more competitive in both domestic and international markets. Implementation of business institutions and organizations with people who are well-educated and trained. They also have an entrepreneurial spirit. Companies like private cooperatives that run their business in a way that is orderly, open and integrated, and BUMD getting more power from regional leaders so that directors can be more "free" in their work.

## IV. CONCLUSION

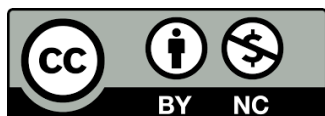
A State-Owned Enterprise, which is a business owned by a regional government, already has a set of rules and guidelines in place. These rules and guidelines are found in Government Regulation Number 54 of 2017 about Regional Owned Enterprises. The low contribution of BUMD to regional income is because of the poor management of BUMD. The results have not been able to provide extra income with a significant portion of regional income. As you can see, c. Good Corporate Governance is needed to make sure that regionally owned businesses are run well and that the region benefits from them.

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