

An Evaluation on The Effectiveness of State-Owned Holding Companies (SOH) In Improving the Performance of State-Owned Enterprises (SOEs): A Case Study of The Mining Sector in Indonesia

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Abstract

Along with global economic growth, the need in improving the performance of State-Owned Enterprises is absolute, especially when dealing with agency problems in mining sector in Indonesia. Based on three research problems: 1) whether or not the mining sector SOE holding policy minimizes agency problems; 2) how the contract between principal and agent minimizes agency problems in mining sector holding; 3) whether or not there is an influence of holding on financial performance, the objectives of this study are, therefore, to evaluate the effectiveness of the holding strategy in minimizing agency problems in SOEs in the mining sector by reviewing the contract between the principal and the agent in minimizing agency problems in the mining sector holding and to obtain empirical evidence comparing the performance of mining sector companies inside and outside the holding, and to find out ways to enhance SOE performance in order to recommend policy formulation to improve transparency, accountability, and efficiency in SOE management. By highlighting the complex relationships within principal-agency structures involving governments, parent companies, and SOEs, the study concludes that better governance to handle problems like political interference, conflicting goals, and lack of transparency paves the way for the concept of the parent company as an intermediary agent to balance conflicting goals and improve governance in SOEs

Keywords: State-Owned Holding Companies, Performance of State-Owned Enterprises

INTRODUCTION

Global economic growth becomes complicated when dealing with issues in managing state-owned enterprises (SOEs). This is especially so when dealing with the mining sector in Indonesia since the mining sector plays a crucial role in the country's economic landscape (Henry, 2022). State-owned enterprises (SOEs) in the mining sector are seen as implementers of state control over vital economic resources. In Indonesia, mining activities are regulated by legal instruments that align with the constitution, to ensure an equal distribution of profits and resources. Especially in the post-reform period the focus of activities is also on the interest of the community and the social responsibility of business actors (Umniyah et al.). In addition, the volatility of stock prices in state-owned mining sub-sector companies is influenced by world oil and gold prices, thus highlighting the linkage of the global market with Indonesia's mining sector (Supeni et al., 2022).

One key issue in creating SOE governance is the conflict of interest between owners and managers (Lu & Zhu, 2020; Mi & Wang, 2000) and it later leads to agency problems with additional costs (Bradshaw et al., 2019; Zhai et al., 2022). This issue becomes abundantly clear when compared to Indonesia, Southeast Asia, and China, which have different economic and regulatory backgrounds despite being in the same continent, Asia. In Singapore, for example, since the late 1960s, João Paiva-Silva from the University of Lisbon noted that Singapore has managed its state-owned enterprises (SOEs) closely to follow the government's economic priorities (Paiva-Silva, 2022). The focus on commercial success and alignment with government goals is rare globally, where SOEs often lack commercial focus. In Singapore, SOEs are regulated differently compared to other countries. Swee (2013) mentions that Singapore's SOEs operate like private businesses and must perform well or face closure, unlike many SOEs from other countries which are influenced by an ideology

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(Ow, 1986; Swee, 2013). These SOEs, or Government-Linked Corporations (GLCs), are a crucial element when it comes to business development. The government set up holding companies like Sheng-Li and Temasek Holdings to manage the SOE sector. Sheng-Li, established in 1974, has handle the defense sector's growth and led to key companies such as Singapore Aircraft Industries (Singh, 1990; Rodan, 2016). On the other hand, Temasek carries out its strategic duties as a shareholder but does not interfere in day-to-day business decisions. More importantly, Temasek focuses on building and maintaining internationally competitive businesses that can 'leverage Singapore's competitive advantage, and in turn, enhance Singapore's economic resilience' as well as divest businesses that are not 'essential resources' for Singapore or that cannot lead Singapore to become an international player (Temasek, 2002).

According to studies on Vietnam by Ang & Ding (2006) and Cheng-Han et al. (2014), companies connected to Temasek are valued higher than others. However, Temasek's model of success depends on strong governance and clean systems which are a challenge to replicate (Chen, 2014). Unlike in Singapore where state-owned holding companies (SLCs) perform well, in Vietnam, companies oftentimes have a large portion of state ownership with more than 25% being controlled by the government (Kubo & Phan, 2019; Phung & Mishra, 2016). Despite the expectations that SLCs in Vietnam are to be profitable, their performance can be affected by government control. This is due to the fact that in Vietnam, government-linked companies are often managed by wealthy families or foreign investors. On one side foreign investment can improve capital use and governance, but on the other hand, family-controlled companies have a mixed performance.

In Malaysia, Khazanah Nasional Berhad was established by the government in 1993 as a strategic investment fund. As a company focused on the strategic investment fund, Khazanah played a crucial role in developing strategic industries in Malaysia. Khazanah Nasional was created to oversee and grow the value of government investments to support Malaysia's economic development by focusing on sectors that prove vital for national interest. It ranges from stakes in key sectors like telecommunications, finance, and infrastructure as Khazanah's role also extends beyond asset management such as shaping the country's economic landscape by investing in projects that promote sustainable growth and innovation such as fostering partnerships with international companies and investing in cutting-edge technology and infrastructure projects.

China is home to the largest number of state-owned enterprises (SOEs) globally. These SOEs are managed by the State-owned Assets Supervision and Administration Commission of the State Council (SASAC), which operates under the Chinese Communist Party (CCP). SASAC as of today oversees 96 SOEs, but when their subsidiaries and related entities worldwide are included, the total number reaches about 150,000. Many of the Chinese SOEs are among the top 100 largest companies worldwide by assets and revenue.

China's financial tool called the Financial Holding Company (FHC) started in 2002 and has held significant traction between 2006 and 2010 as outlined in China's 11th five-year plan. Significant changes were prominent in this period in the financial sector. The new regulations allowed banks to start trust fund management companies and invest in leasing and insurance firms. The 12th five-year plan continued these developments and by the 13th five-year plan (2016-2020), there has been a stronger emphasis on regulating these financial holdings.

In Indonesia, state-owned enterprises (SOEs) are designed to benefit the public by providing essential goods and services and creating job opportunities. They aim to prevent the private sector when it comes to monopolizing and contribute to the country's economy by boosting exports and foreign exchange. As regulated by Law of the Republic of Indonesia No. 19 of 2003 concerning SOEs, in managing its business, SOEs are managed by the Board of Directors. The Board of Directors has the sole responsibility of being a representative of SOEs as well as in the management of SOEs to achieve the objectives of SOEs. In carrying out their duties, directors must comply with the principles of professionalism, efficiency, transparency, accountability, and fairness. To continue to run according to the provisions, SOEs are supervised by a multilevel structure. Supervision of SOEs is carried out by the Commissioners, while the Commissioners are supervised by the Dewan Supervisory Commissioners.

Like other countries, SOEs in Indonesia also have potential agency problems. The high composition of the government's ownership structure of SOEs extends government control over management. In addition, government control can utilize company assets for the public benefit and this causes potential agency problems (Widiyanto, 2021). Astami et al. (2010) examine this by examining the effect of privatization of SOEs on performance, which further reduces agency problems. The results of this study show that SOEs with private sector ownership have higher performance than SOEs that are wholly owned by the government. In line with this study, Rossieta (2017) In his research investigated this condition from the point of view of mechanisms of Good Corporate which affect the performance of SOEs in Indonesia. The study found out that the mechanism of Good Corporate increased in privatized SOEs. These results show that privatization can limit agency problems. However, another study in Indonesia also found that privatization raises the vested interests of all elites who are involved in privatization (Ayuningtyas, 2011).

The Ministry of State-Owned Enterprises (BUMN) has introduced the concept of “holdingization,” which involves the merging of several SOEs into a single parent company to improve performance. This approach was meant to enhance financial conditions and strategic synergies but its effectiveness can vary. Studies by Sumarna & Solikin (2018) and Christiani (2022) found no clear improvement in financial performance or stock trading after holdingization. How holdingization affects SOEs is then important to be investigated.

The state-owned holding company of Indonesia’s mining industry, called MIND ID, consists of PT ANTAM Tbk, PT Bukit Asam Tbk, PT Freeport Indonesia, PT Inalum (Persero), and PT Timah Tbk. The structure of the companies can be seen in Figure 1.1 below.



Figure 1. 1 Company Structure MIND.ID

Source: Mind.id (2023)

Agency problems in state-owned enterprises in the mining sector is always important because of their significant implications for governance and efficiency. Historically, the relationship between the state and mining capital has been complex, characterized not only by profits, but also by environmental degradation and exploitation of labor, leading to local resistance (Henry, 2022). Changes in the regulation of the mining sector have shifted power from centralization to decentralization, impacting government-capital relations and contract models (Harun et al., 2023). This confirms the idea that agency problems in state-owned enterprises, especially when dealing with agency problems in the mining sector in Indonesia are important to be investigated as intended in this research.

Based on three research problems: 1) whether or not the mining sector SOE holding policy minimizes agency problems; 2) how the contract between principal and agent minimizes agency problems in mining sector holding; 3) whether or not there is an influence of holding on financial performance, the objectives of this study are, therefore, to evaluate the effectiveness of the holding strategy in minimizing agency problems in SOEs in the mining sector by reviewing the contract between the principal and the agent in minimizing agency problems in the mining sector holding and to obtain empirical evidence comparing the performance of mining sector companies inside and outside the holding, and to find out ways to enhance SOE performance to recommend policy formulation to improve transparency, accountability, and efficiency in SOE management.

LITERATURE REVIEW

Despite the big impact of state-owned enterprises (SOEs), there's not much when it comes to literature discussing their uniqueness (Peng et al., 2016; Xie & Redding, 2018). SOEs are often criticized for being ineffective with such criticisms lacking solutions (Xie & Redding, 2018). SOEs, which have government funding, face major agency problems because they have to meet various other goals aside from making a profit (Chen et al., 2018; Lin et al., 2020; Peng et al., 2016). The influence of politics and social objectives hurts the SOEs' efficiency and consistency in their goals which then leads to low transparency and accountability (Chen, 2014; Kim & Chung, 2020; Lin, 2011; Nurgozhayeva, 2017; Peng et al., 2016; Wong, 2004). In the case of developing countries, the interests of smaller shareholders may be or have been overlooked for state interests (Peng et al., 2016; Young et al., 2008).

Privatization is considered to be one approach to improving SOE performance (Bortolotti et al., 2002) but a myriad of governments still keep significant control of privatized companies which then also leads to more problems in the long run (Bortolotti & Faccio, 2009). Another alternative is to create a holding company that's focused on profitability.

A holding company acts as a middle agent and for the most part, helps manage SOEs more efficiently, and improves governance and performance as well. This type of company operates as a parent organization that owns a significant portion or all of the shares of other companies known as subsidiaries. Their primary functions range from ownership and control, management oversight, financial management, risk management, legal and tax advantages through consolidating profits and losses among subsidiaries while offering legal protection by limiting liability, strategic investment through the investment of diverse industries or sectors, and centralized control that allows unified strategic planning and management of the group while subsidiaries focus on their specific operational activities.

It can also be a shield for SOEs when it comes to political interference and as such it increases transparency by making the ownership more accessible (Wicaksono, 2008). Southeast Asian countries like Singapore, Malaysia, and Vietnam have set up holding companies including Temasek Holdings, Khazanah Nasional Berhad, and State Capital Investment Corporation (Kim & Chung, 2020; Pei et al., 2019).

In New Institutional Economics, agency theory highlights the information imbalance between a principal and agent because the principal can't directly see what the agent does due to the high monitoring costs (Jaya, 2021). The high monitoring costs come from the amount of time, effort, and money to keep track of someone's actions. We can take the example of if a company hires a manager (the agent) to run a branch, then the owners (the principals) would need to spend on surveillance, audits, and thorough checks to ensure the manager is doing their job properly and doing it in the best interest of the owners.

Now with that in mind, if the principal gives responsibility to the agent with imperfect information, then the agent might misuse the resources without the principal knowing or the principal might misuse their control over the agent. This issue is the agent-principal problem and there are two types of this:

1. The principal can monitor the agent's activities and achieve better results, making the agent work in the principal's interests without the extra costs.
2. The principal cannot fully monitor the agents and relies on related activities to assess their performance. The incentives are used to directly control or influence the agent but the downside to that is that it backfires at times.

Agency problems come from hidden actions and information (Arrow, 1986). Stiglitz (1989) on the other hand states that principal-agent relationships occur when one's actions affect the others through norms and contracts. Bergman and Lane (1990) highlight two key public policy issues: moral hazard and adverse selection.

A moral hazard is a situation where one party engages in risky behavior or fails to act in good faith because they don't have to face the full consequences of their actions. According to Petrie (2002), this happens when

the agent neglects their responsibilities after a contract. Adverse selection on the other hand is a situation where one party is in a transactional dynamic and has more or better information than the other party then later leads to a poor decision being made by the less informed party and this occurs when principals choose unsuitable agents due to imperfect information. Gilardi (2001) states that moral hazard or ex-ante opportunism or hidden information arises because the principal is not sure about choosing an agent and the principal cannot supervise all agent actions perfectly. In connection with the potential agency problem between the principal and the agent, an improvement between the principal and the agent is needed in a document agreed upon by both parties. Strengthening contracts is something that needs to be done to minimize agency problems.

METHODS, DATA, AND ANALYSIS

This study uses a mixed method, which is a method that uses qualitative and quantitative data collection and analysis techniques in stages. Data sources, methods of collecting data and methods of analyzing data are explained in the following.

Data Sources and Data Collection Methods

According to Sekaran and Bougie (2016), research data are obtained through two sources, namely primary and secondary. In this research, the primary sources are taken from, both interviews and written documents, companies of the members of the MIND ID holding, while the secondary data scholarly information on indicators studied about company’s performance.

Collecting primary data uses Purposive Sampling for three groups of data samples, namely data on companies that are members of the MIND ID holding, data on mining sector companies with majority family ownership, and data on mining sector companies with foreign majority ownership. In the first group, data was collected from subsidiaries of mining SOE holding members listed on the IDX, including PT. ANTAM Tbk, PT. INALUM, PT. Timah Tbk, and PT. For the data of mining holding members, the data collected is financial data for the period 2017 + 5 financial years, which is taken from MIND ID's annual report. For data on family-owned and foreign-owned companies, the data is taken from annual reports and prospectuses from mining companies listed on the IDX during the same year span, namely 2017 + 5 financial years or 2017-2022. The data used in the analysis is financial data, which indicates the company's financial performance, namely total assets and *revenue*. The number of samples in this study is divided into 4 holding companies, 25 foreign-owned companies and families.

In order to have broaden comprehension on the issue, this research also uses a systematic review to analyze discussions about state-owned enterprises (SOE) management in Southeast Asia, China, and Indonesia with the main focus on agency problems. The goal is to explore each country’s strategies when it comes to the issues in SOEs such as agency problems, political interference, and social objectives. The reason Southeast Asia, China, and Indonesia were chosen was due to the similar geographical aspect. The data was gathered from studies on agency problems in SOEs, the impact of holding companies on SOE performance, and the role of state ownership in reducing conflicts between the government’s role as shareholders and regulators.

Data are taken from informants representing information needed to answer the research question as mapped in the following table.

Table 3. 1. A Map of Research Informants

Research Question 1	
Does the mining sector SOE holding policy minimize agency problems?	
Information Required	Data Source
Development of <i>SOE</i> holding policy	FGD Policy Analyst, a review of existing holding policy documents
Agency problems in SOEs	IDI Representative of SOE Energy Sector (principal) and IDI Representative of MIND ID (agent)
Agency problems before <i>holding</i>	FGD Policy Analyst, IDI representative of SOEs Energy Sector (Principal)
Agency problems after <i>holding</i>	FGD Policy Analyst, IDI representative of SOEs Energy Sector (Principal) and IDI representative of

	MIND ID (agent)
Research Question 2	
How does the contract between principal and agent in minimizing agency problems in mining sector holding	
Information Required	Informant
Contract between agent and principal in the <i>holding process</i>	IDI representative of SOEs for the Energy Sector (Principal) and IDI representative of MIND ID (agent), study of contract completeness documents
Completeness of contract documents in the holding	IDI representative of SOEs for the Energy Sector (Principal) and IDI representative of MIND ID (agent), study of contract completeness documents
Clauses in contracts that minimize agency issues	Study of contract documents
Research Question 3	
Is there any influence of holding toward financial performance?	
Financial performance of holding members before holding	IDI representative of SOEs Energy Sector (Principal) and IDI representative of of MIND ID (agent), study of historical financial documents
Financial performance of holding members after holding	IDI representative of SOEs Energy Sector (Principal) and IDI representative of MIND ID (agent), study of historical financial documents

All data fall into variables including:

1. Performance Output, namely: financial performance before and after holdingization
2. *Policy outcomes* , including economic, social, and institutional aspects.
3. Structure of principality
4. Policy implementation, including aspects of regulatory and allocative actions (*output*), implementation, and factors that affect the effectiveness of the policy impact on the financial performance of mining SOE holdings.

Processing the qualitative data, this study uses the Atlas.ti application to analyze and organize interview data. One of the approaches to presenting data is to build a mind map from the results of qualitative analysis. This mind map aims to explore the main themes, find relationships between concepts, and present the findings visually. First, the study identified themes that emerged from the interview data. After that, the node feature on Atlas.ti is used to mark and organize key parts of the interview transcript. Each node represents a specific theme or topic that we find in the data. The presentation of the mind map uses different visualizations and formats to distinguish between the main themes, sub-themes, and excerpts from the interview, thus clarifying the structure and hierarchy of information in the mind map.

Method of Analysis

For qualitative analysis, the study adopts a research data analysis model from Miles and Huberman (1994). There are three stages recommended after data collection (Miles *et al.*, 2018). First, data condensation. This stage consists of the process of selecting, focusing, simplifying and/or transforming data that appears in notes, transcripts of individual and group interviews, documents, and other empirical materials. By condensing the data, the information obtained will become stronger and more relevant. The second stage is the presentation of data. This stage presents data that has been condensed in the previous stage so that it is possible to carry out analysis and action. Observing the data presented helps researchers to understand what is happening and what further actions need to be taken, both for further analysis and to collect additional data if needed. The third stage is to describe and verify the conclusion. Drawing conclusions involves taking a step back to consider what data being analyzed means and to assess its implications for the question at hand. Verification, which is integrally related to concluding, requires reviewing as much data as necessary to double-check or verify these emerging conclusions.

Quantitative analysis is conducted on the implications of the ownership structure in the holding. This is investigated by using a regression analysis approach *path analysis*. The method is used to measure the effectiveness of the holding structure on financial performance, in which the impact of principality structure on the performance of the companies is investigated by using the model as follows. Company Performance =

f(Principal Structure, Variable control). The model given is adapted from the studies of Short and Keasey (1997), Anderson and Reeb (2003), Ang and Ding (2006), and Paniagua et al. (2018) and Thong Tien Nguyen* and Hien Thu Nguyen (2020).

Path analysis is a type of linear least squares method for selecting unknown parameters in a linear regression model (with a fixed-one-level effect of a linear function of a set of explanatory variables) with the least squares principle: minimizing the number of squares of the difference between the observed dependent variable (the value of the observed variable) in the input dataset and the output of the (linear) function of the independent variable. Geometrically, this is seen as the sum of the squares of the distance, parallel to the axis of the dependent variable, between each data point in the set and the corresponding point on the regression surface—the smaller the difference, the better the model will match its data. The resulting estimator can be expressed by a simple formula, especially in the case of simple linear regression, where there is a single regression on the right side of the regression equation. Estimator *path analysis* is consistent for a fixed-level effect of one-level when the regressor is exogenous and forms perfect collinearity (rank condition), consistent for estimation of residual variance when the regressor has a finite fourth moment and is optimal in the unbiased linear estimator class when homoscedastic and serial errors are not correlated. Under these conditions, the path analysis method provides an unbiased average of the minimum variance when the error has a limited variance. Under the additional assumption that the error is normally distributed with a mean of zero, path analysis is the maximum likelihood estimator that outperforms any non-linear unbiased estimator.

Proposition Development

This research is expected to be able to reference research models in the formulation of policies and regulations to improve the governance of SOEs and companies under them. Based on *C5.1. Contract Theory*, the formulation of the proposition is as follows.

P1 SOE companies with SOE Holding shareholders will have good governance

P2 with the ownership of clear contract documents between the Holding and the members of the SOE holding will face fewer agency problems

P3 Companies with ownership by *Holding* have better financial performance than ownership by *non-holding*.

RESULT AND DISCUSSION

According to Law No. 19 of 2003 concerning State-Owned Enterprises, the Minister acts as a Shareholder at the GMS in terms all both in the Company and in Limited Liability Companies where not all shares are owned by the state. Furthermore, this Law also regulates decisions in the GMS which include investment in the amount of capital, changes in the articles of association, projected use of profits, restructuring the company, and so on. In this layer, the Government is represented by the Minister of SOEs who acts as the principal. Operational implementation is represented by SOE Holding which acts as an agent. The holding acts as the acting of the government, and is an extension of the government.

Until now, no regulation specifically regulates Holding (Ginting, 2020). Therefore, the holding company is still subject to the Limited Liability Company Law because the holding company in Indonesia is in the form of a Limited Liability Company. Holding SOEs represent the Ministry of SOEs as the holding company in various SOE sectors in Indonesia. MIND ID is appointed by the Ministry of SOEs as Holding SOEs in the mining sector based on Government Regulation No. 46 of 2022 concerning state capital participation for the establishment of companies in the mining sector. In the regulation, it is specifically explained that the duties of Holding The mining sector include establishing or including capital in other entities, carrying out head office activities, making investments both directly and indirectly, restructuring companies and assets, and so on so that in carrying out its duties the holding is a principle. SOEs are agents that will perform tasks according to the company's mission and vision, both in profitability and social responsibility.

According to Law of the Republic of Indonesia Number 40 of 2007 concerning Limited Liability Companies, the board of commissioners in a limited liability company has general and special duties to supervise

following the articles of association and provide advice to the board of directors. Thus, the board of commissioners represents SOEs in acting as (principal) who supervises the performance and operation of the company carried out by the board of directors (agent). The agent will run the company's operations to achieve the company's targets, which will usually be outlined in the Company's Long-Term Plan (RJPP).

The Result of Qualitative Analysis

Based on the elements of qualitative research variables as shown in table 4.1, a discussion on the result of qualitative analysis is explicated as follows.

Table 4.1 Theoretical Dimensions and Indicators

It	Theoretical Dimension	Indicators
1	<i>Information asymmetry</i> is a condition in which one party has more or better information in a transaction (Hart and Holmstrom, 1986)	Conflict of purpose
2	<i>Hidden Information</i> situations in which agents have better information about decisions made on behalf of principals (Furubotn and Ritche, 1998)	Transparency
3	<i>Adverse Selection</i> is a condition in which the uninformed party negotiates an understanding or contract with a different perception from the one who has more information (Akerlof, 1970)	Political Intervention
4	Monitoring costs incurred to monitor agent behavior in order to act in accordance with the interests of the principal (Furubotn and Ritche, 1998)	Management and Supervision
5	Monitoring costs incurred to monitor agent behavior in order to act in accordance with the interests of the principal (Furubotn and Ritche, 1998)	Shareholder Structure
6	<i>Hidden Action</i> is an action taken by one party in an economic relationship that cannot be observed by the other party in the relationship (Furubotn and Ritche, 1998)	Stakeholder Influence
7	<i>Adverse Selection</i> is a condition in which the uninformed party negotiates an understanding or contract with a different perception from the one who has more information (Akerlof, 1970)	Regulatory Uncertainty

Adverse Selection

In the context of the government, holdings, and SOEs, *Adverse selection* refers to a situation where management decisions, investments, and so on are influenced by factors that not only pay attention to the strategic health of SOEs, but also broader interests such as the interests of the state or society as a whole (Zhang, 2006). *Adverse selection* in this situation, it can be characterized by political intervention and regulatory uncertainty that causes SOEs to be disadvantaged (Bursztyn et al., 2022).

SOEs are often the subject of a variety of political interests that can influence business strategy, investment decisions, and overall corporate governance (Adhari, 2015). Political intervention can include various actions or interventions from the government or other political stakeholders in decision-making and the operations of SOE holdings. This can include the appointment of high-ranking officials, the establishment of favorable policies or regulations, or even direct intervention in the operational management of the company (Marbun et al., 2021). The existence of political intervention, especially the appointment of strategic officials in the body of SOEs, is realized by MIND.id as a holding of SOEs in the mining sector as explained by the informants in interviews and FGDs as follows.

"... The most frequent thing may be the appointment of executive officials, it is natural for the government to want to guarantee that the appointed officials are willing to be loyal to the state..." (IF1_9)

"...There is still a problem, because of this government intervention that is detrimental to SOEs. For example, in political carriages that are incompetent, he serves as an operational officer in SOEs. If it is based on investment only, it should not be involved in operations. The problem of the board of directors is really a shareholder mechanism, but in reality the government intervenes..." (IF3_7)

"... If the operations are not merged, the operations will be able to accommodate many political people. As a result, what exists is made to have children and grandchildren so that they can accommodate political people..." (IF3_10)

"...If the people who sit in the holding are showing from the government, it still cannot bring the holding to an optimal position..." (IF3_11)

"... I don't think it can see anything like that. There is a possibility that there must be only if you are told to prove whose intervention this is, that is what you can't. It's difficult to minimize because it's not a portion at our level..." (IF4_8)

In addition, political intervention can make the bureaucratic pattern slow in SOE operations. Bureaucratic decisions influenced by political considerations may not always be based on the efficiency and interests of the company. This can affect the decrease in the efficiency of SOEs. These conditions were agreed upon in the FGD as follows.

"... The bureaucratic pattern has not changed. This even makes things that should be fast become very slow because they have to get approval from the top management first. If in terms of this value is achieved, but in terms of the effectiveness of this operation is disturbed..." (IF3_6)

"... If we look at it in the field, what we feel is that it is still very dependent on the government. For example, the preparation of the RJPP, the annual budget still depends on the government. Even though it must be fast because SOEs, especially if the budget, is six months late, it will miss many predictions. So actually the role of holding exists but is weak..." (IF3_12)

Another condition that reflects *adverse selection* is regulatory uncertainty. Regulatory uncertainty is often an obstacle for SOEs in various things such as setting long-term goals, disrupting strategic plans, and decreasing competitiveness. Changing regulations can also be a problem in itself as explained by the informant as follows.

"... In 2009 Law 4 was issued changing *the contract base* to licensing. This means that permits may not be two-way but one-way from the government to entrepreneurs. It becomes a dynamic in itself..." (IF1a_2)

"... There is, the name is also a corporation from the perspective of the market, cost efficiency, value chain stakeholder aspirations. There must be a difference in perspective in operational activities that are the government's *short-term targets*. There have been several clashes where the impression is that the regulator does not seem to provide support for the SOE priority program..." (IF1b_13)

Uncertain regulatory conditions are also an obstacle for SOEs in carrying out their business operations. In addition to reducing efficiency, regulatory uncertainty also reduces the competitiveness of SOEs. This was explained by the informants as follows.

"... For example, regarding downstream, there are obstacles to domestic transactions subject to VAT. Inalum's need for alumina is cheaper to import from Australia than to take from Bintan. But the cost is more expensive because there is VAT..." (IF1a_4)

"... In the merger, for example, of state-owned enterprises, they are hit by anti-monopoly and anti-unfair business competition laws. This means that they cannot participate in tenders anymore because later there will be pseudo-competition..." (IF3c_9)

"... There are, for example, tin commodities. We were told to go downstream, but after it became a downstream product, it turned out to be more expensive than from outside who came here. Because those from outside are free of import duties, while we are subject *to various taxes*..." (IF4_13)

As a *Holding*, MIND.ID views government intervention in SOEs as a natural thing as long as the state can guarantee that the form of intervention has a positive impact on SOEs. In addition, the fact that SOEs are government-owned companies, it is natural for the government to intervene. This was explained by the informant as follows.

"... SOEs have a state, which is managed by the government. The current regime, whoever it is, is the embodiment of the president's vision and mission from the campaign promises. SOEs as a teachers, engines of growth, the state authority are the only mandates that must be carried out represented by the government at that time. Is there an intervention? The name also has a country. The state must intervene..." (IF1b_8)

"... What intervention does the government want, if I am a state agent, it is legal, as long as it does not contradict the applicable laws and regulations. What interludes happen may be the appointment of executive officials. Naturally, the government wants to guarantee that the appointed person is willing to be loyal to the state..." (IF1a_9)

MIND.ID also acts as a holding as well as a coordinator who acts to collaborate the culture of separate mining sector SOEs into synergy. MIND.id formed IMMRI (Indonesia Mining & Minerals Research Institute) to overcome problems that arise between SOEs and regulations, *stakeholders*, and *trading arms*, and other related parties. The synergistic collaboration that is sought to be achieved with IMMRI is believed to be important to voice strategic issues more systematically so that the best solution can be achieved. This was explained by the informant as follows.

"... The formation of the MIND ID to prejudice that influence, in my opinion, is very important because of how remuneration, communication with consumers, and trading arms to export commodities, so the existence of a MIND ID related to culture, with how it is related to stakeholders, documents, strategic guidelines, contracts, it then becomes a very important part of daily operations, from concept to culture, to details. So this changed a lot of things because of the synergy earlier..." (IF1a_14)

"... Currently, IMRI is intended so that the needs of MIND ID as a group can have a team that not only thinks about SOEs, but the industry so that it is conducive to investment. Optimizing added value is also an important mandate. So there is a division that thinks and interacts with stakeholders that affect national policies, we identify and we voice aspirations..." (IF1a_3)

"... Synergy and collaboration are important, especially in voicing strategic issues..." (IF1a_4)

Monitoring Cost

Monitoring costs in the context of agency problems refers to the costs incurred by the principal to monitor the agent's activities and behavior. Monitoring costs are needed because the interests of the principal and the agent are not aligned. Including monitoring costs are audits, reporting, control systems both internal and external and so on. Monitoring costs are identified from the statements of the informants as follows.

"... Yes, in the MIND ID holding, in addition to the annual, there is also a quarterly report. Beyond that, the ministry of SOEs has an annual plan information system. It is a kind of media for the interaction of reports whose content is monthly. But formally we evaluation on a quarterly basis, besides that there is a response from us to mind id..." (IF4_2)

"... It is enough, indeed, sometimes for example there is something that makes us suspicious, it could be from here to give an assignment to the commissioner to conduct a special audit for certain cases that exist and have been done..." (IF4_3)

"... There is a manual book and the committees are also all there. There are eight BCG assessments, those are like what charter, what committee, what should be had, the checklist is all there and it is assessed every year..." (IF4_6)

"... There is an impact, yes, we ourselves are for monitoring, holding is also for monitoring, with existing governance. It means that it has been layered..." (IF4_9)

"... It's not about the control, it's the willingness to change. Convenience in business processes, which are related to non-commercial commercial, it has a high level of comfort. Good time tends to create weak people. Maybe it's not the monitoring but the reluctance to create new things..." (IF1b_2)

Although monitoring costs have been identified, this is considered reasonable in some conditions. First, if the complexity of the business and the uncertainty of the environment are high. When a business has complex operations and uncertain operating environment conditions, principals need to increase supervision so that the company's strategy remains relevant and responsive following the goals that have been set. The mining sector is a sector with complex operations that involve the process and distribution of minerals and mining materials, thus involving both technical and environmental risks. Mining commodity prices are also highly volatile influenced by global factors such as currency value, global market demand and global politics. This uncertainty encourages tighter monitoring by principals to keep agents acting with minimal risk.

Hidden Action

The influence of *stakeholders* such as shareholders, consumers, and labor unions can become a *hidden action* because their actions cannot be fully seen or observed either by the government or by the holding. Less conducive conditions from unobserved stakeholder actions can result in an imbalance of interests between *stakeholders* and management, and can interfere with the performance of SOEs. This is in line with the informant's statement as follows.

"... But also the problem of internal human resources that are not easy to reconcile who cannot accept mergers into holdings, among the big ones are labor unions..." (IF3a_1)

"... Everything related to the law, both the company law and the labor law affects. Let alone workers, it becomes very sensitive..." (IF1b_12)

However, the informants agreed that the influence of *stakeholders* in SOEs so far has not resulted in a negative impact on the company's operational effectiveness. The formation of many trade unions is actually a function of solving problems among workers. Here is an excerpt from the interview.

"... Unions are rarely volatile from employees. Maybe his well-being is already good... (IF4_11)

"... We allow many unions to be formed so that the problems at the lower level can be solved by the unions..." (IF1b_12)

Other stakeholders who influence SOEs are consumers. Although it has a considerable influence on competitiveness, hidden *consumer actions* are not an obstacle for SOEs in achieving their goals. For example, one of the goals of SOEs is downstream, which encourages various turmoil from consumers. However, SOEs, together with the holding and the government, are consistent in continuing to carry out downstreaming. This was explained by the informant as follows.

"The market is affected by economic turmoil and global price volatility. For example, we in *Banned* the same as WDO, the originator from the European Union. But even then we can still live because our consumers are not the only ones. Our goal is to downstream so that we can enjoy added value..." (IF4_12)

Hidden Information

Hidden information in the context of agency problems is a gap in information that is not fully known or the information available is incomplete between the agent and the principal. *Hidden information* can have an impact on uncertainty, lack of trust, or conflicts of interest between the parties involved. In the case of the mining sector, both the MIND.id and the government have measures to keep strategic information transparent so that *hidden information* can be minimized. Among these measures are regulatory enforcement, periodic reports, special audits, and *charter manuals*. This was explained by the informants as follows.

"... If it is from the ministry of SOEs to SOEs, it is the nature of how holding can become a parenting policy. So what the members carry out is the policy which is very rarely biased. Noise often occurs when the lower one feels that there is an extra burden. But the information was conveyed in this case SOEs until now the level of compliance is high even though the nature of the assignment is not profitable..." (IF1b_7)

"... Yes, in the MIND ID holding, in addition to the annual, there is also a quarterly report. Beyond that, the Ministry of SOEs has an annual plan information system. It is a kind of media for the interaction of reports whose content is monthly. But formally evaluate quarterly, besides that there is a response from us to MIND ID..." (IF4-2)

"... It is enough, indeed, sometimes for example there is something that makes us suspicious, it could be from here to give an assignment to the commissioner to conduct a special audit for certain cases that exist and have been done..." (IF4_3)

"... There is a manual book and the committees are also all there. There are eight BCG assessments, those are like what charter, what committee, what should be had, the checklist is all there and it is assessed every year..." (IF4_6)

Information Asymmetry

Information asymmetry refers to the difference in access to information between agents and principals that causes an imbalance in information between the two. One of the things that causes information asymmetry is the conflict of purpose. Conflict of purpose involves a conflict of interests or objectives between the agent and the principal so that each party has different priorities. This is triggered by information asymmetry in that one party does not fully understand the other party's goals and motivations. There is an opinion that SOEs have a harmony of goals when viewed from laws and regulations.

"... Article 2 yes, it's definitely not the only profit. It is clear that the government and SOEs refer to the law, so there is no difference in purpose. It's just that the context is different, according to each portion..." (IF4_1)

"... Holding is already in the right direction, it is hoped that it will help *the growth* of SOEs..." (IF2_1)

Furthermore, related to the Law referred to in the interview quote above is Law No. 11 of 2003 concerning State-Owned Enterprises. Article 2 of this Law explains that SOEs have purposes and objectives, including contributing to the development of the national economy, pursuing profits, organizing public benefits, pioneering business activities that cannot be run by the private sector, and helping economically weak entrepreneurs. However, there is common opinion among the informants that the conflict of interest indicates the problem of SOE agencies in the mining sector and the government. This can be seen in the informants' comments: "... Market share control is not much different. This is what we should highlight, actually where is this government headed. If it's just the value, but how is the operation, the operational effectiveness. The grouping of the holdings is a bit strange that we highlight..." (IF3b_4) or "... This mining in my opinion is a bit strange, why does Bukit Asam have to be combined with Antam which has nothing to do with it, the segmentation is different. This is what I think the government is still not firm, whether it is only in investment or operational, market share control..." (IF3b_3).

The problem in SOE agency can also be seen through their suspicious comment like the following:

"... Indeed, SOEs have always been born from government regulations. Interestingly, in America there is only one state-owned enterprise, namely NASA. Maybe later it can be searched why a globalist country only has one SOE. There SOEs are only for those whose projects cannot be held by the public. Like NASA, which is indeed controlled by the state because the private sector has not been able to do it. If the private sector can penetrate into space, it is likely that NASA will retreat. In my opinion, the philosophy of SOEs should be like this. My view from a policy perspective should be that the government should look at the philosophy of the establishment of SOEs..." (IF1c_8)

Based on the interview excerpt above, it can be concluded that the purpose of SOEs is clear by law, but in practice, there are various conflicts of purpose. SOEs are required to pursue profits, on the other hand, SOEs must also carry out social functions. This condition creates a deficiency that is further realized by the government with the follow-up to the plan to revise the SOE Law. The plan is that SOEs will be separated into clusters pursuing profits and clusters running public service obligations. This was explained by the informant in the following interview excerpt.

“... There will be revision of the SOE Law, which will be formed Cluster SOEs. Which SOEs are looking for profits, which SOEs will focus on Public Service Obligation who have the task of providing support to the community...” (IF2_2)

The Result of The Qualitative Mindmap

The following is the Mindmap of each group of informants. The agency problems, however, are seen in different ways. They see agency problems in different ways. On the one hand, informants from AAKI, for example, confirm that there are agency problems within SOEs, while, on the other hand, informants from DPR members consider that agency problems is common as it can always appear in any institution but since the Government has taken appropriate action about SOE holding, they confirm that SOEs in mining sectors are moving in the right direction. The informants from the Ministry of SOEs state that although agency problems are always potential issues, they can be minimized through information transparency, strict monitoring, and real contracts between the Ministry of SOEs and the SOE holding.

The CEO of MIND ID states that Government intervention is inevitable for MIND ID as it is a state-owned enterprise and to mitigate agency problems, MIND ID established the IMMRI division (Indonesian Mining and Minerals Research Institute) and implements transparency toward key stakeholders. He adds that there should be a contract in the form of a BOD Charter and SOP that’s believed to reduce agency problems.

The Result of Document Observation

The following is a table presenting the result of document observation which shows potential agency problems.

Table 4.2. Potential Agency Problems

No	Potential Agency Problem	Variable Definition	Document to Mitigate
1	Conflict of goal	Information asymmetry is a condition where one party has more or better information in a transaction (Hart and Holmstrom, 1986)	Quarterly report, Annual report, BOD Charter
2	Transparency	Hidden Information is a situation where agents have more information on principal’s decision (Furubotn dan Ritcher, 1998)	Quarterly report, Annual report, BOD Charter
3	Political Intervention	Adverse Selection is a condition where uninformed parties negotiate understandings or contracts with different perceptions from parties who have more information (Akerlof, 1970)	Quarterly report, Annual report, BOD Charter
4	Management and Supervision	Monitoring costs incurred to monitor the behavior of agents to act following the interests of the principal (Furubotn and Ritcher, 1998)	Quarterly report, Annual report, BOD Charter
5	Shareholder Structure	Monitoring costs incurred to monitor the behavior of agents to act following the interests of the principal (Furubotn and Ritcher, 1998)	Quarterly report, Annual report, BOD Charter
6	Stakeholder influence	Hidden actions are actions taken by one party in an economic relationship that cannot be observed by the other party in the relationship (Furubotn and Ritcher, 1998).	Quarterly report, Annual report, BOD Charter
7	Regulatory Uncertainties	Adverse Selection is a condition where uninformed parties negotiate understandings or contracts with different perceptions from parties who have more information (Akerlof, 1970).	Quarterly report, Annual report, BOD Charter

The Result of Quantitative Analysis

The result of quantitative analysis is processed by using Path Analysis and SMART PLS Software. The following are tables showing the result where each table represent year-on-year growth rates.

Table 4.3. Descriptive Statistic

	Mean	Median	Min	Max	Std. Dev	Excess Kurtosis	Skewness
Asset Total	5.065	4.53	- 65.34	93	23.491	2.427	0.332

Revenue	5.522	13	- 291	100	53.66	10.324	- 2.319
Profit	25.496	37	- 947	690	175.655	13.37	- 1.777
Independent director	14.391	16	0	50	15.214	- 0.906	0.51
SM Holdings	8.852	0	0	66	21.98	2.833	2.173
SM Family	31.661	31	0	90	28.021	- 1.444	0.17
Foreign SM	19.009	0	0	97	27.515	0.391	1.25

Quantitative data consists of 4 out of a total of 7 MIND.id holding companies with a representation ratio of 57% and 19 out of 44 non-holding companies in the mining sector listed on IDX with a representation ratio of 43%.

Table 4.3. Association Testing

	Original Sample (O)	Mean Sample (M)	Standard Deviation (STDEV)	T Statistics ((O/STDEV))	P Values
Foreign → Efficiency	0.43	0.432	0.167	2.583	0.005
Holding → Efficiency	0.365	0.358	0.18	2.031	0.021
Family → Efficiency	0.376	0.74	0.177	2.12	0.017
Independent Director → Efficiency	0.015	0.006	0.111	0.131	0.448

The results of the association test show a significant relationship if the P values are below 0.05. This means that there is a significant relationship between foreign ownership, holding ownership, and family ownership with company effectiveness. However, the presence of independent directors does not influence the effectiveness of the company's financial performance.

CONCLUSION AND SUGGESTION

This study uses two complementary analysis approaches, namely quantitative with statistical tests and qualitative through in-depth interviews and *focused group discussions*. From these two approaches, this study concludes three things. First, from the analysis of the elements of agency problems, mining SOEs, basically the existence of MIND ID SOE holdings, has done quite a lot of minimizing agency problems. Holding MIND ID as a management entity that supervises and coordinates the activities of its members has a two-way role. It aligns the interests of the Government and SOEs by acting as a collaborator and translator of SOEs' constraints on the government and vice versa. MIND ID also acts as a holding as well as a coordinator that brings the culture of SOEs in the separate mining sector into synergy. MIND ID formed IMMRI (Indonesia Mining & Minerals Research Institute) as an effort to overcome problems that arise between SOEs and regulations, stakeholders, trading arms, and other related parties. The synergistic collaboration that is sought to be achieved with IMMRI is believed to be important to voice strategic issues more systematically so that the best solution can be achieved.

Second, contracts between *agents* and *principals* are also made through various documents, both MIND ID and the Government create efforts to keep strategic information transparent so that hidden information can be minimized. Among these measures are regulatory enforcement, periodic reports, special audits, and charter manuals. Third, this study finds empirical evidence from the results of quantitative data tests that the proportion of foreign majority shares, holdings, and families has a significant positive influence on the

effectiveness of mining sector companies. On the contrary, the results of this study show that the proportion of independent directors on the board of directors does not have a significant influence on the effectiveness of mining companies. Although independent directors are often considered essential elements of good corporate governance because they are expected to provide an objective perspective and oversee management more effectively, in the context of mining companies, their existence has not been shown to have a major impact on operational effectiveness. This could be due to the complexity and specifics of the mining industry which requires technical knowledge and in-depth experience that independent directors may lack.

This research serves to formulate the following relevant policy potentials. First, this study finds that the existence of SOE holding Mind.id able to minimize agency problems shows that a model like this can be used as an example for other public sector industries. The policy implications that can be taken are to encourage the formation of holding or similar coordinating entities in other SOE sectors that face similar agency challenges. This step can improve coordination between SOEs, reduce duplication, and increase the efficiency of government supervision of the overall SOE portfolio.

Second, the strategy taken by the MIND ID and the Government to maintain information transparency and manage contracts properly is an important principle in reducing the problem of hidden information and moral hazard in agency relationships. Relevant policy implications are to strengthen regulations related to information transparency in contracts between SOEs and the government, as well as encourage the implementation of best practices such as regular audits and periodic reports that ensure compliance with high transparency standards.

Third, this study finds out that the proportion of foreign majority shares, holdings, and families has a positive influence on the effectiveness of mining companies, providing an important perspective in designing policies related to share ownership. In this regard, it can be concluded that the implications of the holdingization policy in SOEs in the mining sector have a positive influence on financial performance. This supports the qualitative aspect that holding MIND ID is something positive because it helps in analyzing agency problems. However, this study shows that independent directors do not have a significant influence on the effectiveness of mining companies. This may be because the existence of independent directors is not required in the regulations on governance in the mining sector or the Indonesia stock exchange.

By integrating the results of this research into policy innovation, the government can improve the governance of SOEs in general, by further improving operational efficiency, and supporting the sustainable growth of the industrial sector. In addition, this approach can also guide other countries facing similar challenges in managing SOEs and their strategic industries.

By in-depth exploration of the management of State-Owned Enterprises in Southeast Asia, the study examines how State-Owned Enterprises (SOEs) are managed in Southeast Asia, focusing on the challenges they face and the solutions proposed. The main issue is the need for better governance to handle problems like political interference, conflicting goals, and lack of transparency. Learning from those countries, Indonesia needs to emphasize the expanded role of SOEs in providing benefits to society. Holdings, regulated by the Ministry of State-Owned Enterprises (SOEs) is proven to create a mechanism to harmonize and improve the performance of SOEs through financial cooperation and strategic integration. However, empirical evidence presents conflicting narratives. Studies on the financial performance of post-holdingized SOEs in Indonesia yielded mixed results, raising questions about the effectiveness and impact of these strategies. By highlighting the complex relationships within principal-agency structures involving governments, parent companies, and SOEs, the study also concludes that the ongoing debate over privatization, holding, and its impact on agency issues confirms the complexity of SOE management in Southeast Asia's diverse economic and political contexts. This study encourages further exploration and research to refine effective SOE management strategies.

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