

THE CONCEPT OF STATE-OWNED CORPORATION SUBSIDIARY GOVERNANCE INCOMPATIBLE WITH THE CORE BUSINESS

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ABSTRACT

Company management based on Good Corporate Governance (GCG) principles is an effort to make GCG a rule and guideline for company managers in carrying out their business activities. Corporate governance is also an essential element of driving performance; many studies have proven that corporate governance affects the company's performance. Implementing the principles of GCG in the management of the company is very important because it guides the company to make decisions appropriately and responsibly and the management of the company to be healthier, thereby increasing the company's value. This study aimed to analyze corporate governance in Subsidiaries State owned subsidiaries that are incompatible with the core business by using normative juridical research methods, with the data source being secondary data obtained by library research. In secondary data used primary legal material in the form of statutory regulations, secondary legal material in the form of literature related to this research. Based on the research results, the concept of governance of Subsidiaries State owned subsidiaries that do not suit the core business, in general, has not been going well due to the establishment of a subsidiary to pursue profit. If the Good Corporate Governance mechanism does not function properly in the company, this can reduce the company's value and lead to poor company performance and even loss. If the principles of Good Corporate Governance are appropriately implemented in subsidiaries that do not suit the core business.

Keywords

*Good corporate governance;
Subsidiaries State owned Enterprise;
Good Corporate Governance*

INTRODUCTION

Companies play an essential role in developing the business world and advancing the economy of a country. Every company's main goal is to try to survive and get a profit (Putri, 2012). The company's ability to achieve what the company aims to establish shows its performance or work performance. Businesses that vastly grow and develop so they need to solve them according to business classifications. The need for a business solution, each of which will become an independent Limited Liability Company. The business fractions are still in the same ownership with the control, which is still centralized to a certain extent so that the company's fractions will have a special relationship with an independent company. Companies that own part or all of the shares in one or several other companies to control or participate in controlling these companies are known as holding companies (Chairan, 2010).

The Holding Company is a central company that owns shares in other companies to regulate these other companies (Chairan, 2010). As the central leader of the holding company who controls and coordinates, the holding and subsidiary companies have a management unit for creating a group company as an economic unit. If several SOEs in similar sectors will be united in one company group and the management optimization is good, there will be a share of support in these companies (Judhanto, 2018). The establishment of a

subsidiary company must be following the holding company's business or its core business so that there is continuity of business being carried out. Some holding of subsidiaries that manage businesses that do not suit the core business has suffered losses. Therefore, it is necessary to have arrangements related to these companies. The arrangement of *Subsidiaries State owned* subsidiaries refers to the Decree of the Minister of Subsidiaries State Owned No.SK-315/MBU/12/2019 concerning the Arrangement of Subsidiaries or Joint Ventures in *Subsidiaries State owned* Environment that the issuance of the Decree considers several things, one of which is the existence of subsidiaries and joint ventures that have the same business field or business focus, it needs to be consolidated to management effectiveness.

The reason for structuring the subsidiary is that the company's management refers to the principles of Good Corporate Governance (GCG), which is to focus on the core business, sustainable efficiency, and the company must be in a healthy condition. Consolidation of *Subsidiaries State owned* subsidiaries is carried out because many Subsidiaries State Owned subsidiaries whose businesses are not following their focus to providing added value to the holding company. The government is aware that not only private companies implement Good Corporate Governance (GCG); therefore, *Subsidiaries State owned* companies that have a crucial role in the national economy can also improve their image by promoting excellent and transparent corporate governance. In general, corporate governance is a structure that is implemented to develop and continue to improve its performance based on laws and ethical values. One way to improve the company's performance is by implementing Good Corporate Governance (GCG) (Fredriawan, 2008).

The Principles of Governance based on the Decree of the State Minister for State-Owned Enterprises Number: Kep-117/M-MBU/2002 are sound corporate principles applied in company management carried out independently - in the interest of the company to achieve the company's goals and objectives (Putri, 2012). If Corporate Governance does not function properly within the company, this can reduce the company's value and lead to poor company performance. The general explanation of Law Number 19 of 2003 concerning State-Owned Enterprises number IV is written that to optimize its role and be able to maintain it in an increasingly open and competitive world economic development, Subsidiaries State Owned need to foster a corporate culture and professionalism, among others, through improving its management and supervision. The management and supervision of Subsidiaries State Owned must be carried out based on the principles of good corporate governance. Based on the description above, the research question in the study is: What is the Concept of Corporate Governance in State-Owned Enterprise Subsidiaries Incompatible with the Core Business?

METHODS

This study used a normative legal research methodology. The data studied were sourced from documents or literature, especially in primary and secondary legal materials. The main legal materials used refer to several laws concerning or related to Limited Liability Companies. Apart from referring to primary legal materials, the arguments in this study's analysis were built based on the opinions of legal experts obtained from their papers.

RESULTS

Company Law in Indonesia

Article 1 point 1 of Law Number 19 of 2003 concerning State-Owned Enterprises states that Subsidiaries State owned is a business entity in which all or most of its capital is owned by the State through direct participation originating from separate State assets. Article 1 number (2) of the Subsidiaries State owned Law Number 19 of 2003 states that: "Company Companies, hereinafter referred to as Persero, are Subsidiaries State Owned in the form of PT, 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 objective is to pursue profit. The term "Company" refers to the method of determining capital, which is divided into shares, and the term "limited" refers to the limit of responsibility of the shareholders, which is limited to the nominal number of shares owned (Muhammad, 2021).

Aside from being subject to the *Subsidiaries State owned Law*, the company is also subject to the PT Law, so the company's establishment must pay attention to the two laws. The Persero duty implementation is carried out by Persero organs, assigned according to their respective duties and functions. Law Number 40 of 2007 concerning Limited Liability Companies are regulated in detail regarding company organs. The company's rights and obligations must be carried out with the assistance of the company's organs, which is useful for moving the company so that the legal entity can run according to its objectives. The limited liability company organs consist of the General Meeting of Shareholders (GMS), the Board of Directors, and the Board of Commissioners. As a legal entity, the company has its assets that are separate from the management's assets, in which the capital of PT the company consists of shares. The word limited refers to the responsibility of shareholders whose extent is limited to the nominal value of all shares they own. The definition of a Limited Liability Company in Article 1 of the Company Law, it can be concluded that the characteristics of a Limited Liability Company are as follows (Sinaga, 2018):

a. In the form of a legal entity.

An entity that exists due to law and its existence is necessary so that it is called a legal entity. Thus, a limited liability company is also called an artificial person or man-made, or a person in law or legal person.

b. Established by agreement.

Each company is established based on an agreement. This establishment means that the founders are entitled to receive shares in the Company and at the same time they are required to make full payments for the shares they have taken.

c. Doing business activities.

Activities in the field of business that aim to gain and/or profit.

d. Authorized capital is divided into shares.

Every company must have capital; Capital must be divided into shares; This authorized capital is also called statutory capital; Authorized capital is the assets of a limited liability company (legal entity) separate from the personal assets of the founder, company organs, and shareholders.

e. Meets statutory requirements.

Closed system; Requirements start from the establishment, operation, and end; There are absolute conditions such as; Deed of establishment in front of a notary and must be approved by the minister.

After obtaining approval from the Minister of Law and Human Rights (HAM), the Limited Liability Company has become a legal entity and becomes itself and can enter into agreements and company assets separate from the owner's assets. Since a Limited Liability Company has a legal entity's status, since then, the law treats the Shareholders and management (Directors) separately from the Limited Liability Company itself, known as: "separate legal personality," namely as an independent individual. Thus, shareholders who do not have an interest in the Limited Liability Company's assets are also not responsible for the company's debts.

A holding company is a holding company aiming to own shares in one or more other companies and/or controlling, managing, and managing one or more of these other companies. Munir Fuady believes that a holding company is a company that aims to own one or more shares in another company and/or regulate one or more of these other companies (Fuady, 2004). Holding company is a company that is already large and growing, then forming several companies as subsidiaries, so the large company becomes the holding company (Murjiyanto, 2002). Moreover, a holding company is the creation of a company that is specially prepared to hold shares of other companies for investment purposes either without or with actual control (Tobing, 2020). The concept of a holding company in implementing the process of forming a holding company can be carried out through three procedures, namely (Sipayung et al., 2013):

a. Residue Procedure. The fragmented company has become an independent company, while the residue (residue) from the original company is converted into a holding company, which also holds shares in the fractional company and other companies if any.

b. Full Procedure. In this case, what becomes a holding company is not the remainder of the original company as in the residual process, but a full and independent company.

c. Programmed Procedures At times, business people have been aware of the importance of holding companies from the start. So that the beginning of a business start, it was thought to form a holding company. Therefore, the company that was first established in the group was a holding company. Then for every business that is carried out, another company will be formed or acquired, where the holding company as a shareholder is usually together with other parties as business partners.

The strengths and weaknesses of a holding company can be grouped into three. The grouping is in terms of company control, company operation, and legal separation, namely (Ma'arif, 2020):

- a. In terms of company control, to control or influence other companies, a holding company needs to have shares in the company between 20% and 50%.
- b. In terms of operating a company, a holding company is legally separate between the subsidiary and the company
- c. In terms of legal separation, it means that several similar companies can be formed under one holding company. For example, insurance companies, banks, and other financial institutions

Under the company's legal designation as a regulatory framework for a single company, company law only regulates the relationship between holding and subsidiary companies in constructing a group company as a special relationship between independent legal entities. A single company approach allows laws and regulations to maintain juridical recognition of holding and subsidiary legal entities' status as independent legal subjects. The association between the holding and the subsidiary in the construction of a group company does not eliminate the juridical independence of the holding and subsidiary legal entities' status as independent legal subjects, even though the subsidiary is under the control of the holding company (Sulistiowati, 2010). In Article 4 number 1 letter a and article 4 point 2, the formation of a new company or company must be based on the laws and regulations in the field of limited liability companies, so that the establishment of *Subsidiaries State owned* subsidiaries still refers to Article 7 of Law Number 40 of 2007 concerning Limited Liability Companies. In connection with the incomplete legal provisions in Indonesia that regulate specific business groups, the subsidiary's legal basis still adheres to Law Number 40 of 2007 concerning Limited Liability Companies.

Law Number 40 of 2007 concerning Limited Liability Companies does not contain any company or company born as a subsidiary. In contrast to the previous Limited Liability Company Law, namely Law Number 1 of 1995 has contained the power of birth of the relationship between holding and subsidiary. This provision is contained in the Elucidation of Article 29 of Law No. 1 of 1995. Subsidiaries are companies that have special relationships with other companies that occur because: 1) More than 50% (fifty percent) of its shares are owned by the holding company; 2) the holding company controls more than 50% (fifty percent) of the votes in the GMS; 3) control over the running of the company, the appointment, and dismissal of directors and commissioners is strongly recommended by the holding company. Meanwhile, according to the Dictionary of the Central Bank of the Republic of Indonesia, a subsidiary is a subsidiary, namely a company that is part of or controlled by another company because most or all of its capital is owned by another company or the holding company (KBBI Online, 2022).

Juridically, the holding company contributes to the subsidiary's orders. When the holding company contributes as a founder, the holding company is obliged to take a share of the shares when the subsidiary is established. The holding company's role in the subsidiary is a shareholder, either an intern or a minority shareholder (Natun, 2018). The subsidiary is under the control of the holding because the subsidiary owns the subsidiary company, so in carrying out its activities, the subsidiary carries out from the holding company. Directors and Commissioners of subsidiaries in several group companies are the same as Directors and Commissioners of the holding company or, in other words, Directors and Commissioners concurrently. However, there are also Directors and Commissioners of a subsidiary that are different from the holding company. It happens because the holding company very much develops the appointment and dismissal of directors and commissioners. Moreover, the holding company is the shareholder of a subsidiary who gets protection in the form of limited liability because in Indonesia, the single company approach is still used, which is implemented by Law No. 40 of 2007 on Limited Liability Companies.

The establishment of a subsidiary is intended as a separation of the company. The formation of group companies does occur nationally and internationally and does not only involve large and multinational companies. A small company may break itself into smaller units, and these companies become subsidiary companies that are located under the auspices of protection of a holding company or, in this situation, known as a holding company to carry out its business. The reasons for this breakdown of the firm may also lie in the possibility of dealing with or sharing the risk. Construction of a holding company and subsidiary company can alleviate the problems faced by an aging company. The establishment of a new company (in this case, a subsidiary) whose shares are held by the old company is a way out of a problem because the new company will carry out business activities such as trade transactions, inventory, invoices, and accounts payable.

The Concept of Governance of Subsidiaries in Indonesia

State owned enterprises carrying out their duties require several improvements - improvements to the management system to improve their performance. The repair tools include creating system controls. The Subsidiaries State owned paradigm can be changed, including the management mindset, employees, and the technology system that must be improved. Companies, especially Subsidiaries State owned, cannot be separated from the problem of corporate social responsibility for their environment in the development of their business. The environment includes not only the internal environment but also the external environment. This external environment is the environment outside the company, so the company must also pay attention to the community and the surrounding environment to run in a balanced manner. Every corporate organization, both private and government, certainly has assets that have long term economic value, which the company owns to carry out operations to support the company in achieving its goals. Because of its function as company support, every asset it owns must be managed effectively and efficiently so that these assets can provide the highest benefit for the company (Ginting, 2020).

Companies in Indonesia are better known as Limited Liability Companies in that the company must be preceded by the phrase "Limited Liability Company" or abbreviated as "PT." In contrast, for publicly listed companies, the company name must be preceded by the phrase "Limited Liability Company," but at the end, the company name is added to the abbreviated phrase "Tbk." Limited Liability Companies have capital consisting of shares which can be traced back to the provisions of Article 1 number 1 of Law No. 40 of 2007 that "Limited Liability Company, hereinafter referred to as a company, is a legal entity which is a capital partnership, established by an agreement, conducting business activities with authorized capital wholly divided into shares and fulfilling the requirements stipulated in this law and its implementing regulations." Several companies in Indonesia have expanded their business by establishing new companies to form group companies or groups. New companies that are included in the group company are often referred to as subsidiaries. Subsidiaries are independent Limited Liability Companies that are still in the same ownership with centralized control within certain limits and have a special relationship because they are controlled by an independent company, also known as the holding company.

The holding company of Subsidiaries State Owned subsidiaries are independent business entities and are two different legal entities that have their obligations and responsibilities for the management of company assets as adopted by the Constitutional Court Decision 01/2019 based on the following (Yulwansyah, 2020):

a. Regarding the authority of the Minister as the GMS and Shareholders

Based on Article 14 paragraph (1) of the Subsidiaries State owned Law, the Minister (State Minister for Subsidiaries State Owned) acts as the GMS in the case that all shares of the Persero are owned by the state and acts as a shareholder in Persero and limited liability companies if not all of its shares are owned by the State. If the Minister acts as the GMS, then by referring to Article 15 jo. 27 Subsidiaries State Owned, the Minister has the authority to appoint and dismiss Directors and appoint and dismiss Commissioners. However, this authority is not found in PP 44/2005 in conjunction with PP 72/2016. Even in Article 2 paragraph (2) Permeneg Subsidiaries State Owned 3/2012 it states: "The appointment of members of the Board of Directors and members of the Board of Commissioners of a Subsidiary is carried out by the GMS of the Subsidiary. the person concerned goes through the nomination process based on the guidelines set out in this Ministerial Regulation. "Based on the above, it can be seen that the Minister of Subsidiaries State

owned only has authority over Subsidiaries State owned, while Subsidiaries State owned subsidiaries are categorized as independent business entities to which the provisions of the Company Law apply.

b. Regarding capital or shares included in Subsidiaries State owned subsidiaries

Article 1 of the Subsidiaries State owned Law defines that Subsidiaries State owned is a business entity whose capital is wholly or partly owned by the state through direct participation originating from separated state assets. However, following the provisions of Article 2A paragraph (3) and (4) PP 72/2016, it can be seen that state assets in Subsidiaries State owned which are used as capital participation in Subsidiaries State owned subsidiaries are transformed into shares/capital and become assets of the Subsidiaries State owned or Limited Liability Company. Thus, it can be seen that the assets of Subsidiaries State owned subsidiaries are Subsidiaries State owned assets that have been separated and become independent assets of the Subsidiaries State owned subsidiaries

Company management based on Good Corporate Governance (GCG) principles is an attempt to make GCG a rule and guideline for company managers in carrying out their business activities. Corporate governance is also a vital element of driving performance. Many studies have proven that corporate governance affects performance. The implementation of corporate governance in Subsidiaries State owned to improve company performance. The Regulation of the State Minister for State-Owned Enterprises Number: PER-01/MBU/2011 concerning the Implementation of Good Corporate Governance in State-Owned Enterprises indicates the government's commitment to implementing corporate governance in Subsidiaries State owned. Corporate governance was first stipulated in the Decree of the Minister of Subsidiaries State owned number Kep-117/M-MBU/2002 regarding implementing acceptable corporate governance practices in State-Owned Enterprises (Subsidiaries State Owned). Article 2 PER-01/MBU/2011 states that Subsidiaries State owned is obliged to implement good corporate governance consistently and/or make good corporate governance the basis of its operations so that this decision requires that all activities of Subsidiaries State Owned and the company's joints be carried out based on good corporate governance (Muslih & Rahadi, 2019). The form of a group company/group in which the holding company establishes a subsidiary company where the holding company becomes the central leader and controls the subsidiary company. Government Regulation Number 45 of 2005 concerning Establishment, Management, Supervision, and Disbanding of State-Owned Enterprises Article 4 states that:

- a. Establishment of Subsidiaries State Owned includes:
- b. The formation of a new Perum or Persero;
- c. Changing the form of a government agency unit into a *Subsidiaries State owned*;
- d. Change in the form of a *Subsidiaries State owned* legal entity; or
- e. The formation of *Subsidiaries State owned* as a result of the merger of Persero and Perum.
- f. The establishment of a Persero is carried out based on the provisions of laws and regulations in the field of limited liability companies.

The principles of Good Corporate Governance or often abbreviated as GCG in Indonesia, are regulated through the Decree of the Minister of *Subsidiaries State owned* No.117/M-BU/2002 dated July 31, 2012, concerning the Implementation of Good Corporate Governance Practices in *Subsidiaries State owned*, which were later refined through the Regulation of the Minister of *Subsidiaries State owned* Number Per-01/MBU/2011 concerning the Implementation of Good Corporate Governance (Good Corporate Governance). The principles of Good Corporate Governance (GCG) based on the Regulation of the Minister of *Subsidiaries State owned* Number Per-01/MBU/2011 are as follows (Ardianti, 2014):

- a. Transparency, namely openness in carrying out the decision-making process and openness in presenting relevant information about the company.
- b. Accountability, namely clarity of functions, implementation and accountability of the organization so that company management can be carried out effectively.
- c. Responsibility, namely the compliance in the management of the company with the prevailing laws and regulations and sound corporate principles.

- d. Independency, which is a condition in which the company is managed professionally without conflict of interest and influence/ pressure from any party that is not by laws and regulations and sound corporate principles.
- e. Fairness, namely justice and equality in fulfilling the rights of stakeholders arising from agreements and laws and regulations.

One of the objectives of implementing the principles of Good Corporate Governance (GCG) is to maximize the company's value by increasing the application of the principles of transparency, accountability, responsibility, independence, and fairness in the implementation of company activities. The implementation of Good Corporate Governance is one of the solutions used to improve government-owned or private companies' performance and competitiveness. Sugiyarso and Winarni stated that the error was the company's result or goal, the level of the company's mission error, the level of the report on the implementation of the task, and the exit from the company mission. According to the Management Study Guide, the implementation of good governance will provide benefits for companies, including:

- a. Good corporate governance (Good corporate governance) ensures company growth and economic growth.
- b. Strong corporate governance maintains investor confidence, as a result, companies can raise capital efficiently and effectively.
- c. Corporate governance will reduce the cost of capital from the company, this is because creditors have a better level of trust in companies that implement good governance so that it will lower their risk profile which in turn reduces the level of costs.
- d. Positive impact on share prices. With a high level of public confidence in companies that implement good governance, it will increase investor demand for the company's shares, this will encourage demand which in turn will increase the share price.
- e. Governance will provide the right incentive for owners and managers to achieve goals among shareholders and the organization.
- f. Good corporate governance is also a victim of corruption, risk, and mismanagement.
- g. Governance helps in the context of needs and development.
- h. Governance ensures the organization is managed in a manner consistent with the best interests of all.

Principles of Good Corporate Governance (GCG) are needed to survive and be resilient in facing increasingly fierce competition. Good Corporate Governance (GCG) is expected to be a means to better guard the achievement of the company's vision, mission, and goals. The company realizes that if GCG principles are applied consistently well, it will be able to increase accountability and create shareholder value in the long term without neglecting other stakeholders' interests. For this reason, the company needs to prepare a Code of Corporate Governance (COCG) so that the principles of Good Corporate Governance (GCG) are consistently applied so that all the values held by the parties with interest in the company (stakeholders) can be utilized optimally and produce a mutually beneficial economic relationship pattern. Code of Corporate Governance (COCG) is a crystallization of GCG principles, applicable laws and regulations, cultural values adopted, vision and mission, and GCG best practices. The Corporate Governance Guidelines have been compiled to become a reference for shareholders, the Board of Commissioners, Directors, Employees, and other stakeholders in dealing with the company. Given the dynamic and evolving business environment, the COCG prepared by the company is always adjusted to existing internal or external conditions. Continuous assessment is always carried out to achieve the best work standards for the company (*Office of Chief Legal Counsel & Compliance, 2020*).

The existence of a group company to date can be called a long term among experts. This difference extends to the realm of the definition of a group company. The difference of opinion occurs because there is no juridical recognition of a legal entity's status in group companies. Even Law No. 40 of 2007 regarding Companies is not concretely disputed about group companies' existence. It is addressed by the various views of group company lawyers who state that there is no common understanding of group companies until now. The meaning of group companies in Indonesian regulations can be found in the Regulation of the State Minister for Agrarian Affairs/Head of the National Land Agency Number. 2 of 1999 concerning Location Permits article 1 paragraph (3), which reads "Group companies are two or more business entities whose shares are partly

owned by one person or by the same legal entity either directly or through another legal entity, with the number or nature of ownership in such a way that through the ownership of share, through directly or indirectly the organization or netting of a business entity."

The structure of a group company is that there are holding company and a subsidiary where the holding company is a company that carries out the central leadership of the company to control and coordinate the subsidiary, so it is not limited to share ownership in the subsidiary. Subsidiaries are part of a group company which is a company under the holding company that is in the construction of the group company to implement policies or policies of the central management (Sulistiowati, 2010). Then in the explanation of article 29 of Law No. 1 of 1995 regarding the previous Limited Liability Company, the definition of a subsidiary is a company that has a special relationship with another company that occurs because of the control of more than 50% of the shares owned by the holding company, control of more than 50% of the votes in the GMS controlled by the holding company, control for the company's net.

Group companies are multi-business companies whose results from all companies are contained in the group, even if a holding company can harm the subsidiaries in one business group. Mismatch of the relationship between the holding company and the subsidiary company will cause the holding company to fail in carrying out guidance and development properly, resulting in growth for the subsidiary company's growth. Subsidiaries cannot use the business group's advantages, subsidiaries also cannot take advantage of the competency advantages possessed by the holding company, and subsidiaries cannot use shared resources owned by the business group. In some cases, this can be detrimental to the subsidiary, creating problems for the SOE (Munir, 2010). The problem of empty sections will eventually cause problems for Subsidiaries State Owned. Some of the problems with Subsidiaries State owned include (Marni, 2020):

- a. Subsidiaries State Owned habit to penetrate all business sectors. This is a bad habit because not all business fields are following the Subsidiaries State owned main activities. In this case, a Subsidiaries State Owned should be focused and maximally in the business sector which is its main activity. Behavior that is not focused and penetrates all areas of business, without a mature strategy can be the cause of Subsidiaries State owned bankruptcy;
- b. The condition when SOEs become cash cows, Subsidiaries State owned must indeed contribute to the country's economic growth. The Subsidiaries State owned obligations must be adjusted to the conditions so as not to undermine the Subsidiaries State owned's financial condition; and
- c. Becoming an object of collective exploitation, this situation occurs when one or a group of people tries to get personal gain from any Subsidiaries State owned activity. This condition will be very detrimental to Subsidiaries State owned because the profits that should be donated to the community are enjoyed by only a few people.

One of the problems mentioned above already has a solution with the enactment of the Circular of the Minister for State-Owned Enterprises Number: SE-7/MBU/12/2019 concerning Compliance with the Provisions of Laws and Regulations in the Context of the Implementation of Good Corporate Governance (GCG), which in section it states that the Board of Directors, the Board of Commissioners, and the Supervisory Board are required to: (1) Always comply with every provision of laws and regulations as a form of implementing the principles of good corporate governance in managing and supervising the company; and (2) Act cooperatively and be responsible for any legal problems that occur, including among other things fulfilling every summons by law enforcement officials in the event of a legal problem in each Subsidiaries State owned (Marni, 2020).

Increasing the role of groups or groups of State-Owned Enterprises as development agencies in their fields must distinguish between state losses and business risks so that the holding company and subsidiary companies can unify the corporate culture which is carried out naturally and gradually and a healthy Subsidiaries State owned holding company does not have to always support the subsidiary the sick and the losers. Subsidiaries State Owned Minister Erick Thohir is seriously tidying up the performance of State-Owned Enterprises. He also issued a moratorium regulation. Subsidiaries and joint ventures for state-owned companies as stipulated in SOE Minister Decree NUMBER SK-315/MBU/12/2019. It is known because the Minister of Subsidiaries State owned wants to learn from all the children, grandchildren, and great-grandchildren of Subsidiaries State owned because there are many children, grandchildren, and even great-

grandchildren of Subsidiaries State owned businesses whose performance is not healthy and even tends to burden their holding company (Tim Redaksi Vo.id., 2020).

Governance Subsidiaries State owned Enterprise That does not Suit with The Core Business

In general, the principles of good corporate governance have positive values in action towards better performance. Implementing the principles of good corporate governance can help the management accountable for the company's management, including its obligations to stakeholders. The application of good corporate governance principles will be practical if the principles of daily business activities are adhered to. Compliance is first initiated and implemented by the management and then followed by all managers because consistent, firm, and continuous implementation of all business actors must be needed. Good Corporate Governance (GCG) is generally known as a good system and structure for managing the company to increase shareholder value and accommodate various parties with interest in the company (stakeholders), such as creditors, suppliers, business associations, consumers, workers, government, and the wider community or in other words a system that controls the company (Melia, 2015).

Good corporate governance is a structure in which stakeholders, shareholders, commissioners, and managers define company goals and methods to achieve these goals and monitor performance. Good Corporate Governance is a system (input, process, output) and a set of regulations that regulate the relationship between various interested parties (stakeholders), especially in the narrow sense of the relationship between shareholders, the board of commissioners, and the board of directors that are formed in order to achieve company goals. Good corporate governance principles are integrated to regulate these relationships and prevent significant mistakes in the company's strategy and ensure that the errors that occur can be corrected immediately, resulting in good corporate governance and achieving corporate goals. Besides, Good Corporate Governance is a system. input and output processes, with the system then existing errors can be processed and resolved (Andypratama, 2013).

The implementation of Good Corporate Governance (GCG) in company management is critical because it directly provides clear instructions for the company to make decisions appropriately and responsibly and enables safer management of the company, thereby increasing company value and business partners' trust. The problems of corporate bankruptcy are closely related to business people's problems, the weakness or absence of a good corporate governance system. The absence of an excellent Good Corporate Governance mechanism in the company can cause company management to provide information that positively impacts stock prices and can encourage companies to account by presenting certain information to avoid the decline in stock prices. The implementation of Good Corporate Governance is considered capable of providing progress towards the company's performance in improving the quality of financial reports and reducing managers' actions to manipulate financial statements (Suwandi et al., 2019).

The Ministry of Subsidiaries State owned began to introduce Good Corporate Governance through the Decree of the Minister of Subsidiaries State owned No. Kep117/M-MBU/2002 dated 1 August 2002 concerning the Implementation of GCG Practices in State-Owned Enterprises. This regulation emphasizes the obligation for SOEs to implement GCG consistently and/or make GCG principles the foundation that aims to increase the company's success while still paying attention to the interests of other stakeholders, based on laws and regulations and ethical values. subsidiaries state owned companies are the main target of the Indonesian government to apply the principles of good corporate governance or GCG. However, many companies in Indonesia have not implemented good corporate governance principles, and many Subsidiaries State Owned subsidiaries who manage the business are not following the business core, which resulted in losses, thus burdening the holding company. State Owned Enterprises Minister Erick Thohir made an official decision to reorganize all subsidiaries and joint ventures owned by (State-Owned Enterprises). Decree of the Minister of Subsidiaries State Owned No SK-315/MBU/12/2019 concerning the Structuring of Companies or Joint Ventures in Subsidiaries State Owned, it is stated that the reason for this arrangement is to optimize the existence of subsidiaries and joint ventures so that they focus on the same business, it needs to be consolidated in order to manage them effectively. Subsidiaries State Owned companies' arrangement refers to GCG (good corporate

and governance), focusing on the core business, sustainable efficiency, and the company must be in a healthy condition. The rationalization and consolidation of Subsidiaries State Owned subsidiaries are carried out because many Subsidiaries State Owned subsidiaries have the same portfolio and are also not optimal in providing added value for their holding company (Harijanto, 2020a).

In the initial stage of structuring Subsidiaries State Owned, the Ministry of Subsidiaries State Owned trimming the children and grandchildren of Subsidiaries State Owned businesses, namely by using a merger, liquidation, or divestment scheme. Subsidiaries State Owned Minister Erick Thohir initiated the arrangement of Subsidiaries State Owned and its subsidiaries as at this time, the previous Minister of Subsidiaries State Owned, Rini Sumarno, was aware of the inefficiency and losses in 600 Subsidiaries State Owned subsidiaries. Subsidiaries State Owned Minister Rini M Soemarno said that he would immediately fix around 600 state-owned subsidiaries because many were considered inefficient and even losing money. He further said that the concept of reforming the Subsidiaries State Owned subsidiary was carried out following the conditions and focus of the company. "Subsidiaries engaged in the same business can be merged or merged, so there is efficiency and does not burden the holding company (Harijanto, 2020b). Corporate governance can be defined as a system built to direct and control the company so that a good, fair, and transparent relationship is created between the various parties who have interests in the company. With the creation and implementation of good corporate governance, company managers will act fairly by safeguarding all related parties' interests so that no party is disadvantaged, especially shareholders. Company managers will not act in a more self-interested manner, even though they have the opportunity to do so that shareholders' interests will be maintained (Lumempouw, 2015).

There is no specific ownership arrangement that addresses holding companies in Indonesian companies. Law Number 40 of 2007 regarding Limited Liability Companies only regulates and explains mergers. The definition of a merger in Law Number 40 of 2007 concerning Limited Liability Companies is a legal action carried out by one or more companies to merge with another existing company, which results in the assets and liabilities of the merging company being transferred due to law to the recipient. The merger and subsequently, the legal entity status of the merging companies is ended because of the law. Law Number 40 of 2007 concerning Limited Liability Companies does not specify in detail the meaning and arrangement of the holding itself, so that the government is complicated in cooperating with several Subsidiaries State Owned companies. Mergers can take the form of mergers, acquisitions, and consolidations due to the absence of an arrangement that addresses explicitly holding arrangements that will impact the rights and obligations between the subsidiary and the holding company. The rights and obligations of the subsidiary and the holding company, when viewed from the practices that develop in daily practice, only from management (financial) and financial perspective, it is not clear what rights and obligations the holding company has towards the subsidiary (Sipayung et al., 2013).

According to Subekti, a legal entity's theory is an entity or association that can have rights and carry out its actions as a human being, and have its assets, can be sued or sued before a judge. This explanation explains that a legal entity's position is the same as a person who can have rights, obligations, responsibilities, assets, and a position before the law. Thus, a *rechts* person or legal entity is created by law and capable of performing legal actions within the company environment. The theory of legal entities applies in Limited Liability Companies because every company must run a good corporate governance system. Subsidiaries in group companies are also required to apply good corporate governance principles, namely good corporate governance, so that corporate governance is good and in line with company objectives. Group companies that establish Subsidiaries must follow their core business, based on the Decree of the Minister of Subsidiaries State Owned No. SK-315/MBU/12/2019 concerning Company or Joint Venture Arrangements in Subsidiaries State Owned stated the reasons for this arrangement is to optimize the existence of subsidiaries and joint ventures. In order to focus on the same business, consolidation is needed to be effective in its management.

The reason for structuring the subsidiary is that the company's management refers to the principles of Good Corporate Governance (GCG), which is to focus on the core business, sustainable efficiency, and the company must be in a healthy condition. Principles of Corporate Governance based on the Decree of the State Minister for State-Owned Enterprises Number: Kep-117 / M-MBU / 2002 are sound corporate principles that

need to be applied in company management, which is implemented solely for the benefit of the company in order to achieve the company's goals and objectives. If the Corporate Governance mechanism does not function properly in the company, this can reduce the company's value and lead to poor company performance and even loss. Related to that, to optimize the performance of Subsidiaries State Owned and make structures better, the government will carry out programs to improve the Subsidiaries State Owned system in Indonesia through restructuring and privatization. In the restructuring program, there is one of the main focuses of the Ministry of Subsidiaries State Owned is developing Subsidiaries State Owned, namely through the rightsizing program. The Subsidiaries State Owned rightsizing program is the Subsidiaries State Owned restructuring program's main program by means of a sharper mapping and regrouping/consolidation to achieve an ideal number and scale of Subsidiaries State Owned businesses.

CONCLUSION

Every company must implement a good corporate governance system. In Indonesia, the principles of Good Corporate Governance (GCG) are regulated through the Decree of the Minister of Subsidiaries State Owned No.117/M-BU/2002 concerning the Implementation of GCG Practices in Subsidiaries State Owned, which was later refined through the Minister of Subsidiaries State Owned Regulation Number Per-01/MBU/2011 concerning the Implementation of Good Corporate Governance. Article 2 PER-01/MBU/2011 states that Subsidiaries State Owned is obliged to implement good corporate governance consistently and/or make good corporate governance the basis for its operations so that this decision requires that all activities of Subsidiaries State Owned and the company's joints be carried out based on good corporate governance. Subsidiaries of State-Owned Enterprises in Indonesia must apply good corporate governance principles so that corporate governance is good and in line with company objectives. Decree of the Minister of Subsidiaries State Owned No SK-315/MBU/12/2019 concerning the Structuring of Companies or Joint Ventures in Subsidiaries State Owned, it is stated that the reason for this arrangement is to optimize the existence of subsidiaries and joint ventures so that they focus on the same business, it needs to be consolidated in order to manage them effectively. The reason for structuring the subsidiary is that the company's management refers to the principles of Good Corporate Governance (GCG), which is to focus on the core business, sustainable efficiency, and the company must be in a healthy condition. Principles of Corporate Governance based on the Decree of the State Minister for State-Owned Enterprises Number: Kep-117/M-MBU/2002 are sound corporate principles that need to be applied in company management, which is implemented solely for the benefit of the company in order to achieve the company's goals and objectives. If the Corporate Governance mechanism does not function properly in the company, this can reduce the company's value and lead to poor company performance and even loss.

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