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State as Shareholder: Comparison Between Indonesia and Singapore

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Keywords:

Corporate Governance; Danantara; State-Owned Enterprise; Temasek.

Abstract: This article examines the role of the state as a shareholder under Indonesia's reformed State-Owned Enterprises (SOE) Law, comparing it with the approach in Singapore. The aim is to provide a preliminary discussion on the corporate governance of Indonesian SOEs under the new legal framework, while addressing gaps in existing literature on SOE governance, particularly in Asia. Using a juridical normative method with a comparative approach, the research reveals key differences in the regulation of the state's role as a shareholder in both countries. These differences are explored from the perspectives of the state's economic motivations, the separation of its regulatory and shareholder functions, and its involvement in SOE investment and management decisions. The article argues that no single corporate governance model is inherently superior. As a result, the future success of Indonesian SOEs under the reformed law, in comparison to Singapore's model, remains an open question for further study.

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Introduction

State involvement in business activities is prevalent in many countries worldwide and plays a significant role in the global economy. One of the primary forms of such involvement is through the state's ownership of shares in national business entities, commonly referred to as State-Owned Enterprises (SOEs). As of 2023, 126 SOEs are listed in the Fortune Global 500 (OECD, 2024), and many of these entities are also publicly traded. The public sector—which includes central and local governments, pension funds, state-owned companies, and sovereign wealth funds—represents the second-largest category of investors in listed companies globally (OECD, 2024). Of the 10,000 companies listed on stock exchanges worldwide, nearly 800 have public sector ownership exceeding 50% of their equity, with Asia accounting for 72% of global public sector ownership (De La Cruz et al., 2019).

Despite their significant market presence, many SOEs across various

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jurisdictions are plagued by scandals that reflect poor corporate governance practices. One contributing factor is that the state, as the regulator of SOEs, is often also a major (and, in some cases, controlling) shareholder. Some scholars have argued that significant state control can lead to potential abuses towards minority shareholders (Enriques & Tröger, 2019) and, in certain countries, can negatively impact corporate profitability (Gupta, 2003). In response, the Organization for Economic Co-operation and Development (OECD) introduced the Guidelines on Corporate Governance of State-Owned Enterprises (OECD Guidelines) in 2015. However, efforts to establish a unified set of corporate governance rules applicable across jurisdictions have encountered significant challenges.

In February 2025, Indonesia enacted Law No. 1 of 2025 (Law 1/2025), marking a significant reform of the 22-year-old state-owned enterprise (SOE) law. Among the key changes introduced by this reform are: (i) the establishment of the Investment Management Agency Daya Anagata Nusantara (Danantara), an entity responsible for managing dividends derived from Indonesian SOEs, and (ii) the creation of two types of holding companies, which will manage investments and oversee the governance of existing Indonesian SOEs. This reform has long been viewed as an attempt to replicate Singapore's model of state-owned enterprise management, with hopes of achieving similar success (Chatterjee & Purnomo, 2016). While the goal is commendable, notable differences exist between the regulations governing state involvement as a shareholder in Indonesian and Singaporean SOEs. A closer analysis reveals that directly copying Singapore's model may not necessarily result in the same level of success for Indonesia's SOEs.

This article therefore examines the role of the state as a shareholder under Indonesia's SOE law in comparison to the state's role as a shareholder in Singapore's SOE model. While SOEs can take various forms, this article specifically focuses on entities structured as limited liability companies, where the state or government holds a majority stake. In Indonesia, this type of SOE is referred to as a *Persero*.

While the corporate governance of State-Owned Enterprises (SOEs) encompasses various aspects, this article aims to provide a preliminary analysis of the corporate governance framework established under the newly reformed Indonesian SOE Law. It seeks to address a gap in the existing literature on corporate governance, particularly in the context of comparative corporate governance in Asia. To date, much of the literature on comparative corporate governance has primarily focused on common law jurisdictions, such as the United States, the United Kingdom, and other common law countries in Asia. More specifically, studies on SOE corporate governance have predominantly concentrated on regions like Latin America, China, and Singapore. However, the topic of corporate governance in Indonesian SOEs, particularly under the recently reformed SOE Law, remains relatively underexplored.

Methods

This research employs a juridical-normative method, utilizing a comparative study as its primary approach. To address the research question, both primary and secondary legal sources are analyzed. The primary legal sources for this study include Law No. 19 of 2003 on State-Owned Enterprises (SOEs), as amended by Law No. 1 of 2025, and Law No. 40 of 2007 on Limited Liability Companies, as amended by Law No. 6 of 2023.

In addition, the secondary legal sources consist of books, academic journals, scientific articles, and reports from reputable organizations (such as the OECD) that are pertinent to the topic. The research adopts a comparative approach between Indonesian and Singaporean law to explore whether Indonesia's SOE law reform—aimed at replicating Singapore's model—can be effectively realized. In this context, the study focuses on identifying both the similarities and differences between the two countries, particularly in terms of the role of the state or government as a shareholder in SOEs.

Results and Discussion

General Overview of State as Shareholder in SOE

1) Efforts to Codify Corporate Governance of SOE through the OECD Guidelines

The OECD Guidelines were codified in response to the widespread mismanagement issues faced by State-Owned Enterprises (SOEs). Initially introduced in 2015, the Guidelines were most recently amended in 2024. Their primary purpose is to serve as a framework for policymakers to develop effective ownership and corporate governance structures for SOEs (OECD, 2024). Specifically, the Guidelines address two critical aspects related to the state's role as a shareholder in SOEs: the rationale for state ownership and the state's role as an owner.

Regarding the rationale for state ownership, the OECD Guidelines, under Point I.A, assert that "the ultimate purpose of state ownership of enterprises should be to maximize long-term value for society in an efficient and sustainable manner." This goal aligns with the corporate objective known as stakeholder primacy—a concept that prioritizes creating value for all stakeholders, rather than focusing solely on profits for shareholders (Keay, 2011). There are two conflicting views on the corporate objective: shareholder primacy, which emphasizes profit generation for shareholders, and stakeholder primacy, which advocates for creating benefits for all parties involved in the company's operations. The idea of using a company to benefit society at large resonates with stakeholder primacy, where the company's efforts are directed towards value creation for all stakeholders, not just its shareholders.

However, as previously noted, the convergence of corporate governance models into either shareholder or stakeholder primacy has yet to be fully achieved. This ongoing debate highlights the challenges in aligning corporate objectives with broader societal goals. The OECD Guidelines further emphasize the state's role as an active owner, recommending that the state should be an "informed and active owner." Specifically, the state is encouraged to clearly define its expectations as the owner of state-owned enterprises (SOEs) while granting these enterprises full operational autonomy to meet these expectations. This autonomy includes allowing SOE boards to fulfill their responsibilities and ensuring that their independence is respected. This approach aligns with the concept of fiduciary duty, which is central to corporate governance. Fiduciary duty, a fundamental principle in common law rooted in equity (Criddle et al., 2019), grants directors "discretionary power" to act in the best interests of the company. This duty closely parallels that of a trustee (Arnold, 2017).

In essence, the OECD Guidelines aim to address the agency problem, which arises when a corporation is managed by directors rather than its owners (shareholders), potentially leading to conflicts of interest. While shareholders typically do not have an obligation to directly oversee management, the OECD Guidelines stipulate that they must, at a minimum, remain informed about the company's operations. However, this requirement should not undermine the independence of the directors.

2) Challenges in Unifying SOE Corporate Governance

The structure and motivations behind state involvement in the economy vary across jurisdictions. In China, for example, prior to the 1979 State-Owned Enterprise (SOE) reform, the government retained control over SOEs, centralizing all decisions related to investments and production (Zhang, 2006). However, in 1997, China introduced a privatization program that allowed the public to acquire shares in SOEs, transforming these entities into mixed-ownership companies (Milhaupt & Pargendler, 2017). In contrast, in the United States, the government owned local banks, railroads, and canals during the 18th and early 19th centuries, but ceased such ownership due to differing views on the state's role as a regulator (Milhaupt & Pargendler, 2017). It was only after the 2008 financial crisis that the U.S. government once again took stakes in private corporations facing financial distress (Milhaupt & Pargendler, 2017). Thus, while the Chinese government has intentionally engaged in, or even controlled, certain sectors of the economy, the U.S. government has been a "reluctant" shareholder, intervening only out of necessity.

Given these differences, establishing a universal corporate governance regulation applicable to all jurisdictions is challenging. When considered through the lens of corporate objective theory, the question of whom a corporation is managed for remains a contentious issue. Some jurisdictions adhere to the concept of shareholder primacy,

famously advocated by Milton Friedman in 1970, arguing that corporations exist solely to benefit shareholders. In contrast, other jurisdictions endorse stakeholder primacy, as proposed by Berle and Means in 1932, asserting that corporations have responsibilities to a broader range of stakeholders. The idea of adopting a uniform model of corporate governance centered on shareholder primacy (Hansmann & Kraakman, 2000) has faced significant criticism. A similar complexity arises in the case of SOEs. When the state acts as a shareholder, the governance of such entities is inevitably shaped by the national governance philosophy, which reflects the country's broader political and economic framework (Milhaupt & Pargendler, 2017). In other words, no single model of corporate governance can be universally applied to SOEs.

As previously discussed, scholars have argued that replicating a corporate governance model from one jurisdiction to another is challenging due to the concept of path dependency. Path dependency has been used to explain the variation in ownership structures across different countries (Bebchuk & Roe, 1999). The research demonstrates that, despite the pressures of globalization and the urgency to develop efficient corporate ownership and governance models, a country's initial ownership structure significantly influences the structure it adopts in the future. Moreover, this initial structure also has a profound impact on the corporate laws selected by that country. In conclusion, the literature cautions governments that attempting to replicate the corporate governance model of one jurisdiction may not lead to the same level of success, as numerous factors influence the corporate governance of state-owned enterprises (SOEs).

State as Shareholder in Indonesia

1) State Role in Indonesia's Economy

The role of the state in Indonesia's economy is grounded in the 1945 Constitution. Specifically, Article 33 outlines the following principles:

a. Economic activity is organized as a collective effort based on the family principle (or collectivism).

b. The state controls the sources of production that are crucial for the well-being of the state and its people.

c. The state holds control over the earth, water, and natural resources, using them for the welfare of the people.

The elucidation of Article 33 further clarifies that Indonesia's economic system is designed to benefit the entire nation under the leadership and supervision of the people. It emphasizes that the welfare of the people, rather than that of individuals, should be the primary focus. All economic activities in Indonesia are aligned with the country's ideology, Pancasila, which serves as the foundation for the so-called Pancasila Economy.

The term "Pancasila Economy" is not formally defined; rather, it represents an ideological framework that emerged after the colonial period, in which native Indonesians were subjected to capitalist exploitation (Mubyarto & Boediono, 1981). The Pancasila Economy system mandates that all economic entities work towards achieving the nation's collective goals (Mubyarto & Boediono, 1981). In its effort to distance itself from capitalist influences, Indonesia's national economic strategy prioritizes the welfare of its people.

2) Ownership Structure Under SOE Law

The 1945 Constitution of Indonesia grants the state legitimacy to intervene in matters crucial to public interest, particularly through State-Owned Enterprises (SOEs). According to the SOE Law, an SOE is a business entity in which the state owns all or the majority of the capital, either through direct participation or by holding special rights in the entity. There are two main types of SOEs: *Persero* and *Perum*.

Persero is a limited liability company, where the capital is divided into shares, and the state holds at least 51% of those shares. In contrast, *Perum* is a fully state-owned entity, with no share division, established primarily for the public interest. Before the enactment of Law 1/2025, the Minister of SOE represented the state in two distinct roles: acting as the General Meeting of Shareholders (*Rapat Umum Pemegang Saham* or GMS) when the state held 100% of the shares in a Persero, and as one of the shareholders when the state's ownership was less than full.

With the introduction of Law 1/2025, significant changes have been made to the ownership structure of SOEs. One key reform introduced by the law is the establishment of Danantara, a new entity designed to manage the government's functions in overseeing SOEs. Additionally, the law emphasizes the creation of SOE Holding Companies, which will alter the ownership structure of Indonesian SOEs.

Once these reforms are fully implemented, the revised ownership structure of Indonesian SOEs will be as follows:

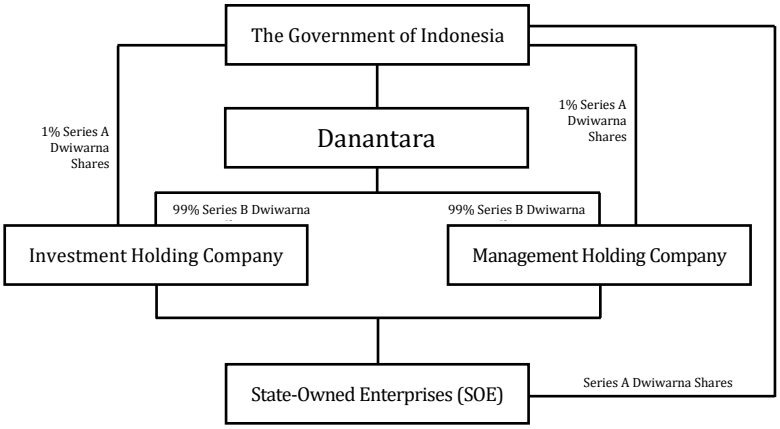

Figure 1
Source: Author

3) State Role as Shareholders Under the SOE Law

The reformed State-Owned Enterprises (SOE) Law provides a clearer distinction between the state's role as both a regulator and a shareholder. According to Article 3B of the SOE Law, the state's regulatory role, represented by the Minister of SOE, encompasses several key functions. These include the authority to decide on policies, regulate, advise, coordinate, and supervise the implementation of SOE management policies. Specifically, the Minister of SOE, with the approval of the President, is empowered to:

a. Set the policy direction for SOEs.
b. Establish corporate governance policies for SOEs.
c. Develop a roadmap for SOEs and communicate it to the House of Representatives.
d. Validate and consult with the House of Representatives on the work and budget plans of holding companies.
e. Conduct assessments of SOEs.
f. Regulate and assign tasks to SOEs.

This restructuring enhances the clarity and effectiveness of the government's oversight and involvement in the management of SOEs.

Under Article 3A of the State-Owned Enterprises (SOE) Law, the President of Indonesia, as the shareholder, possesses the authority to oversee the management of SOEs, which is part of the President's broader powers in managing state assets. This authority is delegated to the Minister of SOEs, acting as the Series A Dwiwarna Shareholder, and to Danantara, acting as the Series B Dwiwarna Shareholder, within both the Investment Holding Company and the Management Holding Company. Moreover, the state itself holds Series A Dwiwarna Shares in SOEs.

As a Series A Dwiwarna Shareholder, the state enjoys special rights within the Holding Companies and the SOEs. According to Article 4C of the SOE Law, these special rights include, at a minimum, the following:

a. The right to approve decisions at the General Meeting of Shareholders.
b. The right to propose agenda items for the General Meeting of Shareholders.
c. The right to access the company's data and documents.
d. The right to determine strategic guidelines and policies in key areas, such as accounting and finance, development and investment, operations and procurement of goods and services, human resources, and legal compliance.

e. The right to appoint and remove members of the Board of Directors (BOD) and the Board of Commissioners (BOC), subject to the President's approval.

f. Any other rights stipulated in the Articles of Association.

4) Potential Risks Pertaining to State's Dual Role as Regulator and Shareholder

There are several overlapping aspects in the state's dual role as both a regulator and a shareholder. As a regulator, the state holds the authority to determine policy direction and corporate governance frameworks. Simultaneously, as a shareholder, the state has the right to influence various policies, including those related to investments, operations, and the procurement of goods and services.

Milhaupt and Pargendler highlight two key risks associated with the state holding both roles, which may be relevant in the Indonesian context (Enriques & Tröger, 2019). The first risk is known as "propping." Propping occurs when certain forms of assistance are provided to State-Owned Enterprises (SOEs) that are not extended to privately-owned companies, such as subsidies or bailouts. For instance, consider an Indonesian SOE facing financial difficulties. In its capacity as a shareholder, the state has an interest in ensuring the SOE's financial health in order to generate profits and ultimately distribute dividends. However, because the state also functions as a regulator, it has the power to enact policies that provide subsidies or bailouts to the financially struggling SOE. While this benefits the SOE and, to some extent, its minority shareholders, similar private companies in financial distress may not receive the same level of support.

Another risk is referred to as "policy channeling," which occurs when the state uses State-Owned Enterprises (SOEs) to further its own political interests. This risk arises when the state is the majority shareholder and private investors hold minority stakes. In such situations, the state can leverage its regulatory powers to implement economic policies that align with its political agenda, using its control over the SOE to enforce these policies. While the ultimate goal of the state's economic policies should be to serve the public interest, from a corporate governance perspective, such actions may undermine the interests of minority shareholders. Moreover, this could potentially conflict with the board's responsibility to maximize the company's profits.

The Desired Model: State as Shareholder in Singapore

Indonesia's reform of its State-Owned Enterprises (SOE) Law aims to replicate Singapore's model, a move driven by compelling reasons. The performance of Singapore's Government-Linked Companies (GLCs) and its state-owned asset management firm, Temasek Holdings Pte Ltd (Temasek), serves as a notable benchmark. For example, Temasek has earned a perfect score of 10/10 on the Linaburg-Maduell Transparency Index. Additionally, Singapore's GLCs outperform private companies in key areas such as board governance, remuneration practices,

audit and accountability, and communication with shareholders (Sim et al., 2014).

The success of Singapore's GLCs and Temasek has positioned them as models for SOE reforms in various countries, including Indonesia and China. However, some experts caution that due to path dependency, China may not replicate Singapore's success exactly (C. H. Tan et al., 2015; Ng, 2018).

Given this context, it is crucial to examine the role of the Singaporean government in its GLCs and Temasek. To date, there have been no empirical or normative studies analyzing Indonesia's potential to replicate Singapore's model with success or failure. Despite this, Indonesia may still find value in using Singapore's model as an inspiration for its own reforms, even in light of studies suggesting limitations in other countries. The following sections will explore the Singaporean government's involvement in its state-owned enterprises, particularly GLCs and Temasek, and compare these structures with the Indonesian model previously discussed.

1) State's Role in Singapore's Economy

Similar to the Indonesian government, Singapore's involvement in its economy is significant, though driven by different motivations. While it is difficult to pinpoint the exact number of Government-Linked Companies (GLCs) in Singapore, it was estimated that there were hundreds of them in 2003 (L. H. Tan & Ramírez, 2003). Between 2008 and 2013, GLCs accounted for 37% of the country's stock market capitalization (Sim et al., 2014). However, unlike the Indonesian government, which often seeks to monopolize certain sectors, Singapore's government involvement stems from urgent economic needs.

As explained by Tan, Puchniak, and Varottil (C. H. Tan et al., 2015), following its separation from Malaysia in the 1950s-1960s, Singapore faced numerous challenges, including high unemployment. To address this, the ruling People's Action Party (PAP) sought industrialization as a means to create jobs. However, industrialization proved difficult due to a lack of human capital and underdeveloped capital markets. Faced with two options—attracting multinational corporations or directly involving itself in the economy—the Singaporean government chose the latter.

The government decided to engage in key domestic markets and institutions by establishing GLCs, which helped absorb excess domestic labor (C. H. Tan et al., 2015). Initially, the government took over assets from the British government, with notable success stories such as Changi Airport and Sentosa Island emerging from this period. Over time, GLCs played a pivotal role in establishing industries that private investors had not previously ventured into, such as iron and steel manufacturing. Today, Singapore's GLCs are home to some of the country's most successful and well-known companies, including Singapore Airlines and DBS Bank.

Before 1974, the Singapore government was directly involved in managing GLCs. However, on January 1, 1974, the establishment of Temasek Holdings marked a significant shift, with Temasek assuming responsibility for overseeing these companies. The next section explores the government's role in GLCs both before and after the creation of Temasek.

2) State's Role as Shareholder in GLCs and Temasek

Regardless of Temasek's involvement, the Singapore government has historically refrained from intervening in the commercial decisions of Government-Linked Companies (GLCs). Before Temasek's establishment, when the Singapore government held shares in GLCs, it delegated the management of these companies to senior civil servants appointed to their boards (Sim et al., 2014). The government did not interfere in the appointment of managers or other personnel within the GLCs, nor did it engage in the management of these companies. As a result, the boards and managers of GLCs operated independently, making commercial decisions in the best interests of the companies.

With the creation of Temasek, the state's role as a shareholder and manager of GLCs' assets was transferred to Temasek, which acts as the state holding company. Unlike Danantara, a government agency, Temasek is an exempt private company under the Singapore Companies Act, wholly owned by the Minister for Finance. Upon its establishment, Temasek took over 35 companies from the government. Under the Singapore Constitution, Temasek has a fiduciary duty to safeguard past reserves accumulated before the current government's term. According to the 2024 Temasek Review (Temasek Holdings, 2024), to ensure accountability, any decisions related to the use of past reserves require the approval of the President of Singapore.

As the owner of Temasek, the Minister for Finance holds the right to appoint, reappoint, or remove board members, subject to the President's approval. Importantly, although Temasek is wholly government-owned, the 2024 Temasek Review explicitly states that neither the President of Singapore nor the government is involved in Temasek's investment, divestment, or other business decisions, unless they pertain to the withdrawal of past state reserves.

The management of Temasek is entrusted to its board and executives. The board members, consisting of industry experts, operate Temasek with a fiduciary duty and a commercial mindset. In typical State-Owned Enterprises (SOEs), where the state is involved in commercial decision-making, there is often a conflict between the state's interests (which ultimately reflect the interests of the public) and the goals of the SOE, which is primarily focused on profit generation. However, this issue may not arise in Singapore, as Temasek — and, by extension, the Government-Linked Companies (GLCs) under its control — is treated as a purely commercial entity with the primary objective of generating profits.

Differences Between Indonesia's and Singapore's Role as Shareholder

There are several key differences between Indonesia's State-Owned Enterprises (SOE) Law and Singapore's model. The first distinction lies in the underlying intent behind state involvement in the economy. Indonesia's economy is based on the principles of the Pancasila economy, which prioritizes the welfare of all citizens. To achieve this, the state has both the authority and legitimacy to monopolize sectors that are deemed to serve the public interest. State-Owned Enterprises (SOEs) therefore act as the mechanism through which the government pursues these goals.

In contrast, Singapore's government involvement in the economy was initially driven by the need to provide employment, particularly due to the lack of private investors. As the concept of path dependency (discussed above) suggests, a country's historical context plays a significant role in shaping its ownership structures and corporate governance frameworks.

Given this historical and contextual difference, as explained in the second and third differences below, we observe that the Indonesian government's involvement in SOEs (whether or not through Danantara) and the Singaporean government's involvement in Government-Linked Companies (GLCs) (with or without Temasek) may not, and likely will not, be governed in the same way. This is not to suggest that one model is superior to the other; rather, it emphasizes that a corporate governance model that succeeds in one country may not necessarily be effective in another.

In relation to the state's role in State-Owned Enterprises (SOEs) or Government-Linked Companies (GLCs), the second key difference lies in the state's dual role as both a shareholder and a regulator. As outlined earlier, under Indonesia's SOE Law, both before and after the reforms, the government plays the dual role of regulator and shareholder. Despite the creation of Danantara and other holding companies, the Indonesian government continues to hold shares in SOEs alongside Danantara and the holding companies. In contrast, when Temasek was established, the Singapore government ceased to hold direct shares in GLCs, transferring control to Temasek.

Theoretically, the risks of "propping" and "policy channeling" may be less pronounced in Singapore's GLCs due to the clear separation of the state's roles as regulator and shareholder. Practically, while Singapore's GLCs are widely recognized for their strong corporate governance practices, the implementation of these practices in Indonesia's SOEs, under the reformed SOE Law, remains a subject of ongoing observation and study.

Another significant difference regarding the state's role is the extent of power the state holds as a shareholder. As discussed earlier, under Indonesia's SOE Law,

the state, as the holder of special shares, has the right to be involved in various management decisions, including those related to investments. In contrast, even before the establishment of Temasek, the Singapore government had a relatively relaxed approach to its control over management decisions in GLCs. After the creation of Temasek, the Singapore government further distanced itself from direct management involvement, leaving investment decisions for GLCs' assets to Temasek, in line with its function under the Singapore Constitution.

Although the government is the direct owner of Temasek, it does not intervene in the company's management decisions. In other words, Singapore has established a framework where the state focuses on policymaking and regulatory functions, while the boards of GLCs and Temasek are granted independence to make commercial decisions based on their expertise as asset managers. This distinctive approach is what sets Temasek apart from other countries attempting to replicate its model.

Conclusion

In conclusion, while Indonesia's aspiration to replicate Singapore's success in SOE regulation is commendable, it is essential to recognize the significant differences in the newly enacted SOE Law. One key distinction is the state's role as a shareholder. Under Indonesia's SOE Law, the government functions as both the regulator and the shareholder, holding the right to intervene in various management decisions within SOEs. This dual role introduces potential risks, such as propping and policy channeling. In contrast, Singapore's model positions the government solely as a regulator, with its shareholding functions in Government-Linked Companies (GLCs) being transferred to Temasek, a state-owned holding company. Although Temasek is fully owned by the state, it operates independently in managing its assets and making decisions regarding GLCs.

While Singapore's model is often cited as a reference for SOE reform, it is important to recognize that a successful corporate governance model in one country may not necessarily work in another. Corporate ownership and governance structures are heavily influenced by historical, political, and economic factors, including the specific motivations of the government in its involvement with the economy. This article does not intend to argue that one model is superior to the other, as no single model can universally apply. Therefore, while Indonesia's SOE Law retains some differences, particularly in the state's dual role as a shareholder, the long-term performance of Indonesian SOEs under this reformed framework remains to be evaluated and studied as time progresses.

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