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PERFORMANCE IN SOE TWO TIERS BOARD SYSTEM BASED ON THE IMPLICATION FROM GOOD CORPORATE GOVERNANCE AND TUNNELING OR PROPPING THROUGH RELATED PARTY TRANSACTIONS

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Abstract

This study is to provide empirical evidence about the performance of State-Owned Enterprises in Indonesia with a two-tier board system, on the effect of GCG and tunneling or propping through related transactions. This research uses data in the form of annual reports of State-Owned Enterprises. The results of this study showed that 69% were showing related transactions indicated tunneling and 31% showed related transactions indicated propping. Furthermore, the results obtained that the performance was simultaneously affected by GCG and tunneling. Partially GCG has a positive effect on performance, while tunneling or propping does not affect. The limitation of this research is that there are only 22 state-owned companies whose shares are partly owned by the public, during 2014-2019. The implication is that SOE need to continue to improve GCG to improve SOE's performance, so that the possibility of tunneling which is a form of detrimental control can be minimized. This study shows that tunneling in state-owned companies is not in the form of taking cash or assets, but taking

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profits through control, coercion, and regulation. This study uses the performance measure based on the Malcolm Baldridge criteria.
Keywords: Performance, Tunneling, Propping, Governance, State-Owned Enterprises.

1. Introduction

As stated in CNN Indonesia that the World Bank assesses the assignment of infrastructure projects from the government to encourage State-Owned Enterprises (SOE) to seek funds, due to assignments that are not accompanied by certainty of funding sources. Such a statement is included in the World Bank report (June 2018) entitled Infrastructure Sector Assessment Program (www.cnnindonesia.com). The World Bank exemplifies the Trans-Sumatra toll road project undertaken by PT Hutama Karya (Persero) Tbk, resulting in HK issuing corporate bonds to fund the project with government guarantees. HK worked on 24 Trans Sumatra toll roads with a length of 2,700 km, but not enough funds to complete the project, resulting in a potentially high-risk project.

To carry out the assignment of the government does provide privileges to SOE in several forms including the provision of capital injections in the form of State Capital Investment, and easier access to obtain loans from state-owned banks with low-interest rates without clear due diligence. The next problem that arises is that SOE that carry out assignments and finance infrastructure development with limited operational funds must seek loans. The World Bank noted in September 2017 that the debt level of 7 state-owned infrastructures assigned by the government reached Rp200 trillion, up threefold from the previous three years before the assignment. Even the profit of SOE had dropped from 22% of GDP in 2013 to 15% in 2016. Meanwhile in the same period, SOE's assets increased by 185.48% from Rp2.266 trillion to Rp6.469 trillion. The decrease in SOE profit is also seen from the contribution of dividends to the government. In 2016, the contribution of SOE dividends to the government was recorded at Rp200 trillion, while in the previous year it amounted to Rp213 trillion.

Problems in SOE may arise from tunneling behavior based on the results of several studies quite a lot in developing countries including Indonesia. Tunneling is an action taken by controlling interest/majority shareholders to take over the rights that should be obtained by non-controlling interest/minority shareholders. Tunneling is supported by weak laws protecting minority shareholders and corporate governance that is not as ideal as many in developing countries (Friedman et al., 2003). Besides, the form or structure of corporate ownership in developing countries is not far from concentrated

ownership. Even the appointment of management is supposed to be independent management.

As a former Dutch colony and civil law state, Indonesia runs a two-tier council system (Probohudono, 2012). To complete the BAPEPAM (Capital Market Supervisory Board), the Jakarta Stock Exchange (JJ) in 2000 issued a regulation: Decree of PT Bursa Efek Jakarta Number: Kep-315 / BEJ / 06-2000, which was later amended by Decree No: Kep-339 / BEJ / 07-2001 stating that public companies must meet the requirements no later than December 31, 2001. The rules concern the independence of the board, in Indonesia, the board structure follows a two-tier system: the board of commissioners and the board of directors. The Board of Commissioners provides direction and supervises the board of directors in managing the company (Cho & Rui, 2009).

Tunneling can be reduced by good governance (Gao and Kling, 2008). If not controlled, tunneling at SOE can harm the company, society, non-controlling (minority) shareholders and even harm the state. SOEs with limited operational funds encourage them to implement several policies, including through transactions with related parties. This is done to carry out tasks as well as possible and follow the targets that have been set. Currently, there are not many studies looking at tunneling or propping behavior in SOE. Furthermore, in this study the authors examine the tunneling or propping position of state companies in more detail so that it can provide empirical evidence about the tunneling or propping positions of SOE related to SOEs performance as measured by the KPKU score as novelty and provide empirical evidence on the effect of corporate governance on SOE performance.

2. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

2.1 SOE's Performance

Superior Performance Assessment Criteria/Kriteria Penilaian Kinerja Unggul (KPKU) is a method adapted from the Malcolm Baldrige Criteria for Performance Excellence (MBCfPE), which has also been widely used to measure organizational performance (Taveira et al., 2003; Eiishiro & Yoshimata2 2007; Costa et al., 2014). The implementation of SOE performance assessment using KPKU is based on the Letter of the Secretary of the Ministry of SOE Number: S-08/S.MBU/2013 dated January 16, 2013, concerning the Submission of Guidelines for Determining KPIs and Criteria for Superior Performance Assessment in SOE. KPKU is used as a tool to measure the performance of SOE, which

will be expected to know where the performance position of SOE compared to world-class companies. KPKU can identify strengths and opportunities for improvement from various areas within the organization. KPKU is built on 11 core values and the following concepts: visionary leadership, customer-controlled excellence, organizational and personal learning, respect for employees and partners, agility, focus on the future, innovation management, fact-based management, social responsibility, focusing on results, and value creation, and system perspectives (Indonesian Quality Award Foundation 2013). Malcolm Baldrige's eleven core values are integrated into 7 categories and 17 items which are Malcolm Baldrige's criteria. The seven categories rated in the business category are:

Table 1. The seven categories of Malcolm Baldrige criteria.

Categories	Points
Leadership	120
Strategic Planning	85
Customer Focus	85
Measurement, Analysis and Knowledge Management	90
Labor Focus	85
Operations Focus	85
Results	450

Source: Letter of the Secretary of the Ministry of SOE Number: S-08/S.MBU/2013

The value of the seven Malcolm Baldrige's categories already produced by a company or organization will identify the company's position at the performance level. The company's performance position based on Malcolm Baldrige is shown in the following table:

Table 2. Performance level Score

Score	Performance level
876-1000	World Class Leader
776-875	Benchmark Leader
676-775	Industry Leader
576-675	Emerging Industry Leader
476-575	Good Performance
376-475	Early Improvement
276-375	Early Results
0-275	Early Development

Source: Letter of the Secretary of the Ministry of SOE Number: S-08/S.MBU/2013

The implementation of KPKU is motivated by demands to SOE to be able to improve competitiveness while being ready to face the free market era of the ASEAN Economic Community. Besides, by guided by KPKU, SOE can build a standard performance appreciation for SOE as a healthy internal competitiveness booster device. With KPKU as a guideline and measuring instrument, SOE is expected to design organizational performance excellence, diagnose the overall performance management system, identify the weaknesses and strengths of the organization, and assess performance improvement efforts. Besides, the achievement of the effective target of the Ministry of SOE in growing value in each state-owned company to have an impact on the national economy and improve the quality of public services. In this case, the existence and function of SOE are in line with institutional theory, as research (J. Bai and Lian, 2013; Juliarto and Tower, 2013; Musacchio et al., 2015; Shan, 2013). The existence of environmental influences from similar public companies as well as demands from the government/state, greatly influence SOE in carrying out operational activities along with performance targets that must be met.

The higher level of state ownership (Ng et al., 2009; Sun et al., 2002) is where such companies benefit from government support, whether through monitoring, business connections, or stronger politics. However, State ownership does not appear to have any effect on the company's performance when the state has equity of less than 10% (Hess et al., 2010) which is the impact of government ownership in mitigating minority shareholder takeovers or market manipulation at lower levels of state ownership. Meanwhile, the influence of concentration of ownership on profit management is weaker on privately owned listed companies than in state-owned listed companies (Ding et al., 2007).

2.2 Two Tiers Board System and Good Corporate Governance

In the Two Tiers System governance the company has two separate bodies, namely the Board of Commissioners and the Board of Directors (Kao et al., 2019; Georgen et al, 2008; Kim & Limpaphayom, 1998). In this system, members of the Board of Directors are appointed by the Board of Commissioners and can be replaced at any time. The Board of Directors manages the company under the direction and supervision of the Board of Commissioners. The Board of Directors must also provide information to the Board of Commissioners and provide answers to questions raised by the Board of Commissioners. The Board of Commissioners is primarily responsible for overseeing management duties.

Good governance will encourage the creation of an accountable relationship between the Board of Directors, Board of Commissioners and Shareholders in order to improve company performance. This condition calls for the accountability of the Board of Directors to the Board of Commissioners, and the Board of Commissioners to be accountable to shareholders. The presence of the Board of Commissioners is to ensure that management works in the best interests of the company and shareholders by directing the manager's corporate strategy to advance the company's goals. The independence of the board of commissioners means that the board of commissioners has the ability to discuss issues outside the existence of management, obtain sufficient information to make decisions, and participate actively in determining strategies.

Recently, the topic of Governance has made headlines, with fraud and business failures involving executive management errors, which in turn raises questions about the credibility of financial reporting and the role of Corporate Governance. So, it takes a Board of Commissioners who has independence and capability to ensure the productivity of company assets.

Good corporate governance (OECD, 2004) is a set of relationships between company management boards, shareholders, and other stakeholders. Corporate Governance is an administrative mechanism that regulates the relationships between company management, commissioners, directors, shareholders, and other stakeholders. It can be seen from the experience of the United States that had to restructure corporate governance as a result of the market crash in 1929. Poor corporate governance is signaled as one of the causes of the political-economic crisis that began in 1997 whose effects are still felt today. The current financial crisis in the United States is also due to the unapplicable implementation of GCG principles, some cases of financial scandals such as Enron Corp., Worldcom, Xerox, and others involving top executives of the company described the unapplied implementation of GCG principles. Comparative analysis was conducted (Bohinc, 2010) related to the composition of the board on one tier OF THE U.S. and two-tiers in particular Europe, as well as the distribution of power to the Board of Directors and executive management. The main difference between a one-tier and two-tier system is that executive management power in the U.S. is delegated by the board and theoretically can be replaced at any time, while power, for example, The Management Board in Germany is governed by law and cannot be changed even with shareholders' decisions on Budget amendments. The two bodies of the Board of Trustees and the Board of Executives are expressly separated and prohibited from concurrently.

A corporate governance mechanism was built and market valuation measures for all public companies in two stock markets in China using data from the company's annual report (Bai and Song, 2004; Liu and Lu, 2007). The corporate governance index is built to summarize the information contained in corporate governance variables, using eight variables to measure various corporate governance mechanisms. It also provides useful guidance for companies to design corporate governance mechanisms to improve market valuations to benefit shareholders and reduce future investment costs. Tunneling tends to be executed through sales to affiliated companies with lower cash flow rights (Cho and Lim, 2018).

Regulation of the Minister of SOE number: PER-01/MBU/2011 dated August 1, 2011, concerning the Implementation of Good Corporate Governance in SOE, is the basis for regulation of GCG implementation. Indeed, in almost all SOE there are written rules that reflect GCG. But looking at the perpetrators of corruption are state-owned officials, it is necessary to look again at how far the rules become a guide to the value and ethics of the company following GCG. The GCG must begin with the enforcement of company rules that bind all employees. The challenges of mcg implementation are not only from internal SOE that partly still follow bureaucratic workflows, but also the state as the owner. It must be ensured that the state is committed to forcing SOE to implement GCG in a transparent and accountable manner, with a high level of professionalism and effectiveness. Therefore, two important things need to be emphasized by the government towards SOE. First, the government must simplify and standardize the operational legal regulations of SOE that also follow and be accepted following company norms. Second, the government must give SOE autonomy in achieving goals and refrain from intervention efforts. Cases in Indonesia are frequent, intervening according to the political agenda of the ruling group. Therefore, this agenda is not only a challenge for SOE but also power holders in Indonesia. The government and SOE must be aware that the public expects good SOE, they are not for the benefit of individuals, groups, rulers, or foreign parties, but for the interests of all Indonesians. The government should not interfere too much in the decision-making of SOE. The OECD and the World Bank state that the best practice is the board of SOE is protected from political intervention. The perception that so-called SOE operations and controls could be affected by the changing political climate may make them less attractive to other investors (Kankaanpää et al., 2014).

At this time, the assessment of CGC in SOE is carried out based on the Decree of the Secretary of the Ministry of SOE Number SK-16 / S-MBU / 2012 on Indicators/parameters of the Assessment and Evaluation of the Implementation of Good Corporate Governance in SOE. In this

Ministerial Decree, the following aspects of testing/indicators are outlined: (1) Commitment to the implementation of good corporate governance on an ongoing basis, (2) Shareholders and owners of capital (3) Board of Commissioners/Board of Trustees, (4) Board of Directors, (5) Disclosure of information and transparency, (6) Other aspects. From the above aspects, it is further described into 153 statements that must be fulfilled to implement good GCG. The decree of the minister related to GCG of SOE is effective since it was established on June 6, 2012.

2.3 Tunneling/Propping and Related Transactions

The condition of concentration of ownership or family ownership, as opposed to widespread ownership, encourages the occurrence of 'Type 2 agency conflict' (Davis et al., 2021; Cuevas-Rodriguez et al., 2012). Type 2 agency conflict refers to the difference of interest between the controlling shareholder and the minority shareholder in a company. The existence of controlling shareholders who dominantly control the course of the company can reduce type 1 agency conflicts because management is also controlled by the controlling shareholders so that the difference of interest between shareholders and management is minimal. However, the existence of type 2 conflicts of this agency harms minority shareholders, most of whom are the general public. In general, type 2 agency conflicts are usually in the form of private benefits taken by controlling shareholders that harm the interests of minority shareholders.

Evidence of shareholder control through related party transactions is carried out (Cheung et al., 2006) by testing whether related transactions are tunneling or propping by classifying them into 7 categories:(1) acquisition of assets by related parties, (2) sale of assets by related parties, (3) exchange of assets between the company and the controlling shareholder, (4) trade in goods and services between the company and the controlling shareholder, (5) payment of cash, loans or collateral by the company to the controlling shareholders, (6) payment of cash, loans, or loan guarantees provided by related parties to the company, and (7) transfer of assets to the company from majority-owned subsidiaries and not go public where there is the possibility of harming the minority shareholders of the subsidiaries for the benefit of the company's shareholders. Transactions that occur in category 6 and category 7 will benefit the company, otherwise known as propping. While in category 5 where there is a cash payment by the company to related parties has a high probability of tunneling. While category 1-4 is asset transfer or purchase of goods and services can be tunneling or propping.

Tunneling is defined as the transfer of assets and profits out of a company for the benefit of majority shareholders (Johnson et al.,

2000). Tunneling is one form of expropriation. There are two forms of tunneling, namely through self-dealing transactions with asset transfer or by increasing ownership without asset transfer. Asset transfer by majority shareholders can be done by transferring resources from the company for its benefit, either in the form of illegal transactions that may go undetected or asset sales through contracts such as transfer pricing, loan guarantees, excessive compensation to executives, or expropriation on the occasion of the company. While the increase in majority shareholder ownership without asset transfer can be done through dilutive share issues, insider trading, minority freeze-outs, creeping acquisitions, or other transactions that can result in losses for minority shareholders. In general owners and or managers in business groups have a strong incentive to take resources from member companies for their gain, thus allowing them to use investment and financing decisions as a means to conduct tunneling actions (Bae et al., 2002; Bertrand et al., 2002; Lemmon et al., 2003).

SOE's regulation number Per-04/MBU/09/2017 concerning Amendments to the Regulation of the Minister of SOE number Per-03/MBU/08/2017 on guidelines for the cooperation of SOE in Article 2 states that cooperation in the context of SOE is a legal alliance between SOE and Partners to achieve common goals. In article 6, it is stated that cooperation is carried out by SOE based on SOP stipulated by the board of directors based on ministerial regulations. Transactions arising from a relationship with related parties can affect the profit and loss of a business. Agreements in transactions between related parties sometimes cannot be done with parties that are not related. Thus, the profit and loss and financial position of the entity may be influenced by related parties.

PSAK 7 regarding the disclosure of related parties outlines that an entity is considered a related party with the following two categories: (1) A person or close family, referred to as a whistleblower entity if: (a) They have the right of joint control or control over the reporting entity, (b) They have significant influence over the reporting entity, or (c) They are key management personnel or the parent entity of the reporting entity (e.g. director/commissioner), and (2) An entity, related to the reporting entity if it meets one of the following criteria: (a) the entity is a member of the same business group as the reporting entity, (b) one of the entities is an associate or joint venture entity of another entity, (c) the two entities are joint ventures of the same third party, (d) one entity is a joint venture of a third entity and the other entity is an associate entity of the third entity, (e) the entity is a post-employment reward program for the employment benefit of one of the reporting entities or the entity associated with the reporting entity, (f) entities controlled or co-controlled by the person identified at number 1, and or (g) the person identified at number 1 has

significant influence over the entity or become key management personnel of the entity (or the parent entity of the reporting entity).

2.4 Hypothesis Development

This research using tunneling or propping and governance as independent variables. Related transactions in SOE differ from related transactions in privately-owned companies Private-Owned Enterprises (POE) in at least two ways. First, related transactions in SOE can reduce social welfare not only when they cause losses to certain SOE by extracting wealth from minority (non-state) investors but also when the state provides benefits that are not available to SOE. Second, the state as the controlling shareholder can extract political personal gain by engaging in so-called "policy channeling" (Ma et al., 2013; Milhaupt and Pargendler, 2017). Agency conflicts between controlling shareholders and minority investors are responsible for most of the profit management in Chinese-listed companies (Liu and Lu, 2007).

Tunneling comes with various conditions as research conducted by (Cheung, Jing, et al., 2009; Cheung, Qi, et al., 2009; Friedman et al., 2003; Lo et al., 2010; Peng et al., 2011; Ryngaert and Thomas, 2007, 2012). Tunneling may arise from the existence of related party transactions/RPT (Juliarto and Tower, 2013) while negative tunneling (or propping) was introduced through research (C. Bai and Song, 2004; Cheung et al., 2006; Friedman et al., 2003; Peng et al., 2011). Propping is generally done by controlling shareholders to support companies that are in financial difficulty or bankruptcy.

Hypothesis 1: there are indications of tunneling or propping in Indonesian SOEs

Empirical studies (La Porta et al., 2000) found that strong investor protection, in this case, related to tunneling problems, was linked to effective corporate governance. Higher board independence correlated negatively with related party transactions (RPT). Better Corporate Governance significantly reduces the size of RP-liabilities and marginally decreases the size of RP-assets. The existence of good governance is expected to reduce the risk of companies that arise due to related transactions (Agnihotri and Bhattacharya, 2019; Gao and Kling, 2008). The legal basis governing corporations in Indonesia (commonly referred to as Limited Liability Companies or 'PT') is Law No. 40 of 2007. Limited Liability Company in Indonesia is then required to have 3 organs, namely the General Meeting of Shareholders/Rapat Umum Pemegang Saham (RUPS), the Board of Directors, and the Board of Commissioners. RUPS is the highest organ that has authority that is not owned by other organs. The Board of Directors is an organ of the Company that is fully authorized and responsible for the management of the Company for the benefit of the Company.

Meanwhile, the Board of Commissioners is an organ of the Company in charge of conducting general and/or special supervision and advising the Board of Directors. The concept of a two-tier system is used in business practice with the aim to better accommodate conflicts of interest between owners of capital and management. In this study, the authors formulated the second hypothesis as follows:

Hypothesis 2: Governance has a positive effect on the performance of SOE

Controlling shareholders can have the incentive and ability to take over minority shareholders (Aharony et al., 2010; Bertrand et al., 2002; Claessens et al., 2002; Johnson et al., 2000; Lin et al., 2010). Furthermore, evidence of tunneling control of shareholders in China (Jiang et al., 2010) through inter-company loans, which are estimated to be tens of billions (RMB) from 1996 to 2006. Indian business groups are becoming bigger and more diverse as market institutions develop. These findings contradict the predictions and implications of all previous schools of thought about business groups including from (Bertrand et al., 2002). Indian business groups continue to increase in the intensity of marketing and technology-related party investments as market institutions develop. The concept of business groups as takeover tools and as the main actors of poor governance in developing countries should be reformed using a more refined empirical methodology that incorporates analysis of strategic activities across the company (Siegel and Choudhury, 2012). Meanwhile, the evidence from the 1997 and 1998 Asian financial crises broadly supports the idea that there is propping (Friedman et al., 2003).

This research uses the performance of SOE as dependent variables. Several studies have shown that the performance of companies registered in China is materially manipulated (C. Bai and Song, 2004; Chen and Wu, 2010; K. Wang and Xiao, 2011). SOE (Jensen and Meckling, 1976) are characterized as having worse financial performance than non-state-owned companies. Research on related party transaction (RPT) relationship with the company's performance and the value was also conducted (Chang and Hong, 2000; Fooladi and Farhadi, 2019; H. Wang et al., 2019). In this study, the authors formulated the third and fourth hypothesis as follows:

Hypothesis 3: Tunneling has a negative effect on the performance of SOE

Hypothesis 4: Propping has a positive effect on the performance of SOE

3. RESEARCH METHODOLOGY

The period of 2014-2019 was chosen because the implementation period of Nawa Cita president began in 2014. And at the time this research was carried out, the annual report that has generally been compiled by SOE is up to the 2019 financial statements. The population used in this research is in all SOE in which there are minority shareholders with less than 50% of public ownership. While the sample is determined by purposive sampling technique with the following criteria: (1) SOE that have complete financial statements for 6 consecutive years from 2014 to 2019, (2) SOE that have carried out performance assessments with KPKU, (3) Minority shareholders are public, not local governments.

Performance measurement in this study refers to the letter of the Secretary of the Ministry of SOE No S.153/S.MBU/2012 that the performance of SOE can be seen from KPKU. This KPKU assessment adopts performance criteria compiled by Malcolm Baldrige. KPKU score is obtained from the company's performance assessment activities conducted by external parties of the company with coordination from the Ministry of SOE. Tunneling detection in this study using basic TUNTA research (Gao and Kling, 2008; Johnson et al., 2000; Shan, 2013) which tests whether related transactions are tunneling or propping. TUNTA is measured as the absolute value of the difference in receivables and debts from related party transactions, divided by total assets. Governance variables are seen from the GCG score obtained by SOE. This GCG score is displayed in the annual report of SOE. The control variables used in this study include Age, and Leverage is the age of SOE that is calculated since the SOE concerned go public. Leverage is determined by using the DAR (Debt to Assets Ratio) ratio, which is the ratio obtained by total debt to total assets of SOE.

This study uses secondary data from SOE financial statements. Financial report data obtained through SOE financial statements published, news in mass media that can be accounted for, the results of previous research, and related literature. The data sources used in this research come from the official web of the Ministry of SOE, the web owned by SOE directly, as well as from other sources that provide related information needed by the author. This research uses a quantitative method with multiple linear regression tests to be able to explain the results of the hypothesis test. i,t

$$KPKU = \propto + b1GCG + b2TUNTA + b3Age + b4Lev + \varepsilon$$

Determine whether there is tunneling or propping in related transactions using TUNTA based on research (Gao and Kling, 2008; Johnson et al., 2000; Shan, 2013) and subsequently combined with

research (Friedman et al., 2003) by distinguishing between positive values (tunneling) and negative values (propping). The two types of values (positive and negative) are further separated and each group of values is carried out a linear regression test again to determine how each tunneling or propping affects the performance of SOE.

4. RESULTS AND DISCUSSION

The following statistics are presented descriptively to provide an overview of the data used in this research, namely KPKU, TUNTA, GCG, Age, and Leverage:

Table 3 Descriptive Statistic of Research Data

Variable	Minimum	Maximum	Average	Standard Deviation
KPKU	321.00	775.25	582.05	100.95
TUNTA	-.4018	.2000	.0189	.1163
GCG	75.52	98.28	89.45	5.47
Age	16	201	59.24	36.70
Lev	.07	.92	.57	.21

KPKU: SOE Performance (obtained from the company's performance assessment activities conducted by external parties of the company with coordination from the Ministry of SOE); TUNTA: The Extent of Tunneling (the absolute value of the difference for accounts receivable and accounts payable of related party transactions, divided by total assets); GCG: Good Corporate Governance (obtained by SOE, the score is displayed in the annual report of SOE); Age: the age of SOE (calculated since the SOE concerned go public); Lev: leverage (obtained by total debt to total assets of SOE).

Table 1 show the data range at minimum values and maximum values, average values, and standard deviations between research data. The data range is quite far because the SOE included in this research are diverse, both types and sizes. This research used TUNTA indicators as to whether transactions are examined in the tunnel. TUNTA times the absolute figure obtained by frogs between related receivables and related debt of total assets.

This research used TUNTA indicators as to whether transactions are examined in the tunnel. TUNTA times the absolute figure obtained by frogs between related receivables and related debt of total assets. Related transactions in SOE can reduce social welfare not only when tunneling causes losses to certain SOE by extracting wealth from minority investors (non-state) or the state as the controlling shareholder extracting political profits through policy distribution. The

results of tunneling detection in this study are shown in the following table:

Table 4 Tunneling or Propping Detection

No	SOE	Year	TUNTA (positive & negative)	No	SOE	Year	TUNTA (positive & negative)	No	SOE	Year	TUNTA (positive & negative)
1	IF	2015	0,000	36	BA	2016	0,057	71	TK	2014	-0,000
2	AN	2016	0,001	37	BN	2019	0,058	72	SI2	2017	-0,001
3	IF	2014	0,003	38	BA	2019	0,066	73	SB	2014	-0,001
4	TK	2017	0,003	39	BA	2018	0,069	74	IF	2018	-0,002
5	JM	2015	0,003	40	SI1	2014	0,070	75	IF	2017	-0,002
6	JM	2014	0,004	41	BR	2016	0,072	76	AN	2019	-0,002
7	WK1	2016	0,004	42	JM	2019	0,076	77	AN	2015	-0,002
8	GN	2014	0,004	43	SC	2019	0,078	78	KS	2018	-0,002
9	TK	2019	0,004	44	JM	2018	0,078	79	AN	2017	-0,003
10	TK	2018	0,005	45	BR	2017	0,081	80	TK	2016	-0,004
11	SI1	2017	0,009	46	SC	2018	0,087	81	SI2	2014	-0,004
12	KF	2014	0,009	47	SI1	2019	0,087	82	TK	2015	-0,006
13	SI2	2018	0,009	48	WK1	2014	0,091	83	SB	2015	-0,007
14	KF	2015	0,010	49	AK	2015	0,095	84	SI2	2015	-0,007
15	KF	2016	0,011	50	BR	2019	0,109	85	IF	2019	-0,007
16	KS	2016	0,012	51	BR	2018	0,109	86	IF	2016	-0,008
17	KS	2015	0,016	52	PP	2019	0,112	87	KS	2017	-0,014
18	SI1	2016	0,017	53	AK	2017	0,116	88	WK1	2017	-0,014
19	SI1	2015	0,020	54	MD	2016	0,118	89	AN	2018	-0,014
20	PP	2015	0,021	55	WK1	2019	0,122	90	AK	2019	-0,018
21	SC	2016	0,022	56	WK1	2018	0,124	91	PP	2014	-0,024
22	SC	2015	0,022	57	TM	2018	0,124	92	AK	2018	-0,044
23	SC	2017	0,025	58	PP	2018	0,124	93	TM	2016	-0,096
24	WK2	2015	0,026	59	MD	2015	0,137	94	TM	2015	-0,120
25	KS	2014	0,038	60	MD	2018	0,138	95	TM	2014	-0,126
26	GN	2018	0,041	61	MD	2014	0,140	96	TM	2017	-0,178
27	SC	2014	0,043	62	MD	2017	0,140	97	TN	2018	-0,287
28	BA	2015	0,045	63	JM	2017	0,147	98	TN	2019	-0,315
29	GN	2016	0,045	64	JM	2016	0,152	99	TN	2014	-0,376
30	SI1	2018	0,045	65	MD	2019	0,155	100	TN	2015	-0,388

31	WK2	2016	0,048	66	WK2	2017	0,160	101	TN	2017	-0,391
32	KF	2018	0,048	67	BA	2017	0,162	102	TN	2016	-0,402
33	GN	2015	0,048	68	AK	2014	0,181				
34	GN	2017	0,052	69	WK2	2019	0,186				
35	KF	2017	0,053	70	WK2	2018	0,200				

TUNTA: The Extent of Tunneling (the absolute value of the difference for accounts receivable and accounts payable of related party transactions, divided by total assets)

Table 2 shows that based on TUNTA value it can be seen that on average there is a difference between related receivables and related debt which can then lead to tunneling or propping with varying ratios. The TUNTA figures that the greater of differences between related receivables and related debt, and the more likely there is an indication of tunneling or propping.

The next hypothesis test used in this study is to use multiple regression tests that will show whether there is an influence between independent variables namely GCG and tunneling on dependent variables, namely the performance of SOE assessed based on KPKU, by entering Age control variables, and Leverage. The linear regression test results that the adjusted R square figure of 0.561 so that it can be said that the performance of SOE measured using KPKU score is determined by GCG and tunneling as much as 56.1% and the rest is determined by other factors outside the model. Furthermore, the test results of the influence of independent variables simultaneously on the dependent variable using the F test shows the F-number of 33,329. The figure is > 3.09 F-number for the data used as much as 102 data, indicating that simultaneously GCG and tunneling affect the performance of SOE measured using KPKU scores. Furthermore, the test results table partially influences independent variables against dependent variables using t-test.

Table 5 t-test Result

Variable	B	t-value	Significance
Constant	-542.023	-4.555	.000
TUNTA	37.753	.638	.525
GCG	12.643	9.766	.000
Age	-.451	-2.389	.019
Lev	33.807	1.070	.287

Table 3 shows the t number for the GCG variable indicates that partially GCG and age are affects the performance of SOE with significance of < 0.05. While TUNTA and leverage variable indicating that variables did not affect the performance of SOE with significance

of > 0.05. Furthermore, from the table obtained the following regression equation, assuming that other factors are considered constant:

$$KPKU = -542.023 + (37{,}753TUNTA) + 12{,}643GCG + (-0{,}451Age) + 33{,}807Lev$$

Based on Freidman (2003) that propping is tunneling negative, then further in this study, the authors distinguished between TUNTA parameter values with positive numbers and negative numbers, to then retest how the influence of tunneling and propping on the performance of SOE.

The levels of tunneling and propping found in this study. A total of 70 annual reports or 69% showed a tunneling trend of related transactions and as many as 32 annual reports or 31% showed a propping trend. However, the higher quantity in tunneling was found with a lower average value of only 0.068. While this value is lower when compared to the average propping value of 0.090. Furthermore, the author performed a linear regression test with the equation as written above, but with separate stages between tunneling and propping. The results obtained are as follows:

Table 6 t Test results for Tunneling Effect

Variable	B	Value of t	Significance
Constant	-502.945	-3.311	.002
TUNTA	-77.451	-.415	.680
GCG	12.069	7.139	.000
Age	-.473	-.2.214	.030
Lev	70.883	1.397	.167

In the condition that there is tunneling in SOE, the tunneling variable and age shows that partially tunneling negatively affects the performance of SOE but is not significance. GCG variable indicates that partially GCG has a positive effect on the performance of SOE. Leverage variable indicates that leverage partially positively affects the performance of SOE, but is not significance. Next, the following regression results are presented for the propping variable:

Table 7 Results of t Test for Propping Effect

Variable	B	Value of t	Significance
Constant	-561.279	-2.432	.022
PROP	54.619	.489	.629
GCG	13.097	5.611	.000
Age	-.675	-.841	.408

Lev	25.709	.350	.729

In the condition that there is propping in SOE, propping variable, age, and leverage indicates that partially they are positively affects the performance of SOE, but is not significance. GCG variable indicates that partially GCG has a positive effect on the performance of SOE. Furthermore, the three linear regression results above can be summarized as follows:

Table 8 Comparison of t test Results

Variable	Effect	
	Tunneling (TUNTA positive)	Propping (TUNTA negative)
GCG	Positive, Significant	Positive, Significant
Tunneling	Negative, Insignificant	-
Propping	-	Positive, Insignificant
Age	Negative, Significant	Negative, Insignificant
Leverage	Positive, Insignificant	Positive, Insignificant

Table 8 shows that in TUNTA values, tunneling has a negative effect while propping has a positive effect on performance, but in this study, it was found to have no significant influence, or arguably no effect. It means that hypotheses 3 and hypotheses 4 are not supported. While GCG variables show a significant positive influence on all three situations, and it means that hypotheses 2 is supported. Furthermore, for Age and Leverage control variables both showed not influence on the performance of SOE as measured by the KPKU score.

Tunneling as a form of conflict resulting from type 2 agency appeared due to the interests of controlling shareholders (Claessens et al., 2002; Johnson et al., 2000; La Porta et al., 2000). This tunneling behavior is generally detrimental to both the minority shareholders and the company. Meanwhile, in so-called SOE, the performance of government-owned companies empirically increased due to the support of the government (Ng et al., 2009). It is based on the view that with related transactions, assets in a company will be used for financing activities in other SOE which in this case are intended to provide covert profits for the government both material profits paid to the government and immaterial, namely the decrease in performance in certain SOE to improve the performance of other companies. This study cannot prove the effect of tunneling and propping on SOE performance as measured by KPKU. The results of this study are still in line with research (Sari & Sugiharto, 2014). The KPKU used as a measure of SOE's performance in this study is a comprehensive performance assessment, including how SOE's management carries out various policies related to government policies.

The existence of tunneling or propping that occurred in SOE through related transactions in this research was found not to affect the performance of SOE. The shift in resources owned by the company in the form of cash and facilities through related transactions does not cause a decrease in the performance of SOE as measured by using KPKU, on the contrary, it shows an increase even in terms of financial performance, for example, indicated by ROA figures showing a decrease. According to the author's analysis, this is due to performance assessment with KPKU is more on how managerial actions/performance in general. So that related transactions conducted by SOE are not only seen from how much financial will return as income but also include how aspects in KPKU performance assessment can be met.

The KPKU was introduced in 2012 to all SOEs to work together to build competitiveness, namely efforts to continue to strive to increase the strategic role of SOE as national assets, as stated in Law No.19 of 2003 concerning SOE. The SOE's KPKU is an initiative strategy of the Ministry of SOE, mainly through improvement and enhancement of performance in a systematic and sustainable manner.

Periodically the BUMN Ekselen Forum (FEB) since 2017 until now has given awards to SOEs that have worked hard to build the integration of various management systems to achieve performance on certain excellent scores. The award is given to SOE by referring to the Superior Performance Assessment Criteria (called KPKU) which has been established by the Ministry of SOE since 2012. The assessment of excellence is carried out through the Assessment process by the KPKU Assessment Team which consists of employees and former employees of SOE who are competent to become KPKU Assessors. The assessment is carried out based on the direction of the Ministry of SOE, which in principle it is done to boost SOE performance.

The nine SOEs consist of PT Jasamarga (Persero) Tbk, PT Telekomunikasi Indonesia (Persero) Tbk, PT Wijaya Karya (Persero) Tbk, PT BRI (Persero) Tbk, PT Angkasa Pura II (Persero), PT Bank Mandiri (Persero) Tbk, PT PP (Persero) Tbk, PT Semen Indonesia (Persero) Tbk, and PT BNI (Persero) Tbk, won the title of industry leader in the excellent SOE performance award 2020 from the results of the 2019 KPKU assessment. In addition, there are 22 SOE that won the title of emerging industry leader, and 39 SOE with good performance predicate. This number has increased from previous years. The data in this study indicate that the KPKU score for each SOE tends to increase every year.

Important achievements such as assets and revenues of SOEs continue to grow, which in 2018 showed a figure of IDR 8,207 trillion, increase from 2014 of IDR 4,600 trillion. In addition, SOE revenue which

reached IDR 2,399 trillion, contributed around 16.17% to the national gross domestic product in 2018. Meanwhile, The Ministry of SOE records the 10 largest debt-owning SOE. The ten SOE is BRI, Mandiri, BNI, PLN, Pertamina, BTN, Taspen, Waskita Karya, Telekomunikasi, and Pupuk Indonesia. Lastly, SOE's financial performance report uses two audit time points in 2017 and has not been audited in the third quarter of 2018. Since what we proposed today are currently 10 SOE with the largest debt that we display, said Deputy for Restructuring of the Ministry of SOE, Aloysius Kiik Ro, during a hearing meeting in the House of Representatives where this data was obtained from the Indonesia Stock Exchange (IDX). The growth shown in the balance sheet of SOE in early 2018 amounted to Rp6.524 trillion increased to Rp7.718 trillion in the third quarter of 2018, while SOE debt at the beginning of 2018 showed a figure of Rp2.263 and increased to Rp5.271 trillion. Former Secretary of the Ministry of SOE, Said Didu, said he was surprised that the increase in debt that continues to occur is not accompanied by the additional income. Revenues should be soaring. Based on his record, SOE's' revenues over the last three years only rose Rp326 trillion. The details in 2015 are only Rp1.702 trillion, 2016 around Rp1.969 trillion, and in 2017 around Rp2.028 trillion. Meanwhile, the real condition according to the current Minister of SOE, Erick Thohir, states that of the 142 SOE only a small part is considered to have profit and have a contribution to state income. Of the total profit of SOE amounting to Rp189 trillion, only 15 SOE contributed up to 73%. Companies with large profits are limited to certain sectors, consist of banking, telecommunications, communications, and oil and gas.

The concept of corporate governance in Indonesia is two-tier system. The concept of the Two-Tier System is widely used in mainland European countries such as Germany, the Netherlands, and Finland where the management functions are separated by supervisory functions in two different containers/boards. In its development, the concept of a two-tier system is more widely used in business practice because of its advantages in accommodating conflicts of interest between capital owners and management. The regulation No. 40 of 2007. Limited Liability Company in Indonesia is then required to have 3 organs, namely the General Meeting of Shareholders/Rapat Umum Pemegang Saham (RUPS), the Board of Directors, and the Board of Commissioners. Members of the board of directors and members of the board of commissioners are appointed and dismissed by the RUPS. So, both the board of commissioners and the board of directors are responsible for the RUPS. By looking at the parallel position between the board of commissioners and the board of directors resulting in the position of the board of commissioners in Indonesia is not as strong as the board of commissioners in European countries because the board

of commissioners is not authorized to appoint and dismiss the board of directors. The board of directors does not have to be responsible for the board of commissioners. This may give rise to the understanding that the board of commissioners becomes friends with the board of directors because of its equal position.

In Indonesia, the institution that seeks to instill GCG values is the Capital Market Supervisory Agency/Badan Pengawas Pasar Modal (BAPEPAM). The values in question are to encourage the implementation of GCG principles in Indonesia. BAPEPAM issues rules and policies related to GCG such as the application of fairness principles in order to protect shareholders' interests and rights, regulations on conflicts of interest in certain transactions, and regulations on tender offers. In addition, BAPEPAM also issued decisions on the application of responsibilities and accountability principles, such as decisions regarding mergers, and acquisitions of public companies.

The Chairman of the Board of Commissioners of the Financial Services Authority/Otoritas Jasa Keuangan (OJK) Wimboh Santoso (2016) said that the implementation of good corporate governance (GCG) principles in Indonesia is relatively lagging compared to neighboring countries. It can be seen from the results that Indonesia only placed two issuers as ASEAN's Top 50 Issuers with The Best GCG in the ASEAN Corporate Governance Awards 2015 held by ASEAN Capital Markets Forum (ACMF) in the Philippines, while Thailand can place 23 issuers, the Philippines 11 issuers, Singapore 8 issuers, and Malaysia 6 issuers. However, based on the observation of SOE data obtained in this research shows an increase in the implementation of CGG in Indonesian SOE. Same as the KPKU score, the data in this study show that the GCG score of each SOE also tends to increase every year.

5. CONCLUSIONS

In this study there is indications of tunneling in Indonesian SOE in the period 2014 - 2019 determined by the TUNTA indicator, but the proportion of propping is still higher than the proportion of tunneling. It can be said that the government still intervenes a lot to help SOE through debt/loans from other parties. Tunneling/propping of related transactions shows no significant influence on the performance of SOE, which means that the existence of tunneling or propping on SOE has no impact on the performance of SOE as measured from the KPKU score. Good Corporate Governance was found to have a significant positive influence on the performance of SOE, in the sense that improving the quality of GCG will improve the performance of SOE. From the results of this study the authors propose the suggestions:

First for SOE that related transaction management requires careful management so that it can improve the company's performance and can meet its obligations better as a business entity to seek profit and as a servant for the community. Second, for the government as a shareholder of SOE, it is necessary to draft appropriate regulations so that policies on measuring the performance of SOE through KPKU can provide a more complex and more detailed picture of bail from the financial side as well as services/management policies. Third, for further research, it is necessary to add different performance measurement tools so that they reflect the performance of SOEs that are more appropriate. Besides that, you can add qualitative methods to get a more detailed picture of the existence of tunneling or propping in SOEs through primary data. It is intended to be able to interpret the position and implications of tunneling or propping more clearly.

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