CORPORATE GOVERNANCE AND FINANCIAL TRANSPARENCY CASE STUDY OF BUMN IN THE INFRASTRUCTURE AND CONSTRUCTION SECTOR

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Abstract

This study aims to analyze the implementation of Good Corporate Governance (GCG) and the level of financial transparency in State Owned Enterprises (BUMN) within the infrastructure and construction sector, focusing on PT Jasa Marga (Persero) Tbk and PT Waskita Karya (Persero) Tbk during the toll road development period under President Joko Widodo (2020–2024). The massive infrastructure expansion, particularly toll road projects, requires BUMN to uphold strong accountability and transparency in managing public funds. A qualitative descriptive approach was employed, analyzing annual reports, financial statements, and official company publications. The findings reveal that both companies have generally implemented GCG principles effectively; however, challenges remain in the disclosure of financial management and project funding risk information. Enhancing transparency is crucial to strengthening public trust and improving oversight effectiveness in national strategic projects.

Keywords: Corporate Governance, Financial Transparency; State Owned Enterprises; Infrastructure Sector; Toll Road Development; Indonesia

Introduction

Infrastructure development, particularly toll roads, became the main focus of the Indonesian government during President Joko Widodo's second term (2020–2024). Through the National Strategic Projects (PSN) program, the government targeted the construction and completion of numerous new toll roads to accelerate interregional connectivity and promote national economic equity (Nugraha,2023). In this context, the roles of state-owned enterprises such as JSMR as a toll road operator and WSKT as a major contractor are crucial. However, this accelerated development, which requires substantial investment, has also created challenges related to financial management, debt risk, and transparent governance. Instances of increasing long-term debt, financial restructuring, and delays in project payments among several construction SOEs indicate that aspects of corporate governance and financial transparency have not yet been fully optimized. Therefore, this research aims to assess the implementation of GCG principles and the extent of financial

information disclosure at JSMR and WSKT during the 2020–2024 toll road development period. The results of this study are expected to contribute to improving corporate governance practices in Indonesian SOEs and to support government efforts in enhancing transparency and accountability in national strategic projects.

Theoretical Framework

This Research is based on the theories of Good Corporate Governance (GCG) and financial Transparency, which are interrelated in establishing effective corporate governance practices, particularly within State-Ouned Enterprises (SOEs) operating in the infrastructure and construction sectors. (Aldo & As'ari,2023)

Good Corporate Governance (GCG) Theory

According to the National Governance Policy Commiittee (KNKG), Good Corporate Governance (GCG is a system that regulates and controls companies to create added value for all stakeholders. The are 5 main principles of GCG, transparency, accountability, responsibility, independence, Fairness. (Sabrina,2021)

Financial Transparency Theory

According to the National Governance Policy Committee (KNKG), Good Corporate Governance (GCG) is a system that regulates and controls companies to create added value for all stakeholders. (Maharani et al., 2024)

Relationship Between GCG and Financial Transparency

Theoretically, Good Corporate Governance (GCG) positively influences the level of financial transparency. This means that the better the implementation of GCG principles, the higher the level of information disclosure by the company.
In the context of State-Owned Enterprises (SOEs) in the infrastructure sector, this relationship is crucial because projects funded by public money must be managed with honesty and openness. (Harahap, 2020)

Hypotheses

Based on the theoretical framework, this study examines the relationship between two main variables:
Independent Variable (X): Good Corporate Governance (GCG), which reflects the implementation of five key principles — transparency, accountability, responsibility, independence, and fairness.
Dependent Variable (Y): Financial Transparency, which describes the extent to which a company discloses clear, accurate, and comprehensive financial information to the public.

Method

This study employs a quantitative research approach that integrates both descriptive and empirical components. The quantitative method was chosen due to

the study's reliance on numerical data derived from corporate annual reports and financial statements. The empirical component investigates the relationship between good corporate governance (GCG) practices and financial transparency, while the descriptive component provides an overview of the conditions of state-owned enterprises (SOEs) operating in Indonesia's construction and infrastructure sectors during the 2020–2024 period.

The research population includes all SOEs engaged in the construction and infrastructure industries that are publicly listed on the Indonesia Stock Exchange (IDX) (Syamriadi et al., 2016). A purposive sampling technique was applied based on two criteria: (1) the company must have remained listed on the IDX throughout the 2020–2024 period, and (2) the company must have consistently published complete annual reports and financial statements during that time. Based on these criteria, JSMR and WSKT were selected as the research samples.

Data were collected using documentation techniques, which involved examining annual reports, GCG implementation reports, and official publications issued by the IDX. Each variable was measured using established indicators from prior empirical studies, with necessary adjustments made to align with the specific characteristics of the selected companies. The Absolute Discretionary Accrual (ABSDA) variable, representing earnings management, was calculated using the Modified Jones Model. The Independent Commissioner (IC) variable was defined as the proportion of independent commissioners to total board members, while Audit Committee Activity (ACA) referred to the number of audit committee meetings held annually. The Institutional Ownership (IOWN) variable was measured as the proportion of institutional shareholdings to total outstanding shares. Firm Profitability (FP) was proxied by Return on Assets (ROA), Firm Age (FA) was calculated based on the number of years since the company's establishment, and Firm Growth (FG) was measured by the annual percentage increase in total assets.

Data analysis was conducted using descriptive statistics and multiple linear regression analysis. Descriptive statistics were used to summarize and describe the characteristics of each variable, providing an overview of their distributions and tendencies. Multiple linear regression analysis was then applied to test the influence of GCG mechanisms on financial transparency. The regression model used in this study is expressed as follows:

$$ABSDA_{it} = \alpha + \beta_1 IC_{it} + \beta_2 ACA_{it} + \beta_3 IOWN_{it} + \beta_4 FP_{it} + \beta_5 FA_{it} + \beta_6 FG_{it} + \varepsilon_{it}$$

where:
ABSDA = Absolute Discretionary Accrual
IC = Independent Commissioner
ACA = Audit Committee Activity
IOWN = Institutional Ownership
FP = Firm Profitability
FA = Firm Age
FG = Firm Growth

ε = Error term

Results
Descriptive Stastistic

Table 1 shows mean, median, maximum, minimum, and deviation for each variable is used in this study.

Table 1 Descriptive Statistic Result

	ABSDA	**IC**	**ACA**	**IOWN**	**FP**	**FA**	**FG**
Mean	-57.9939	1.6381	0.0000	1.6271	0.0357	0.0000	104668.5951
Median	-66.5639	0.5714	0.000	0.3627	0.0404	0.000	102422.3059
Maximum	50.13	6.67	0.00	6.26	0.09	0.00	104668.5951
Minimum	-91.45	0.00	0.00	0.00	0.00	0.00	77159.74
Std. Dev.	39.29312	2.65950	0.00000	2.40113	0.02648	0.00000	18211.87097
Obs	10	10	10	10	10	10	10

The results show that the Absolute Discretionary Accrual (ABSDA) variable has a negative mean value of –57.9939, indicating a tendency toward earnings management practices that decrease reported income in state-owned infrastructure and construction companies. The relatively large standard deviation (39.29) suggests substantial variation among companies in the level of discretionary accruals. The mean value of the Independent Commissioner (IC) variable is 1.6381, indicating differences in the proportion of independent commissioners across companies. Meanwhile, the Audit Committee Activity (ACA) variable records a value of 0.0000, implying that most companies have not actively conducted or disclosed audit committee meetings during the observation period.

The Institutional Ownership (IOWN) variable has a mean value of 1.6271, reflecting variation in institutional ownership among companies, both by government institutions and financial entities. The Firm Profitability (FP) variable shows a mean of 0.0357, indicating relatively low but stable levels of profitability within the sector. The Firm Age (FA) variable shows no variation, with a constant value of 0.0000, while the Firm Growth (FG) variable records the highest mean of 104,668.59 and a standard deviation of 18,211.87, indicating considerable differences in growth rates among companie.

In summarize, the presented outcomes suggest that state-controlled organizations operating within the infrastructure and construction domain display a wide array of financial and administrative traits, especially concerning their patterns of institutional ownership and the magnitudes of their growth trajectories.

Hypothesis Test

The study employed the Fixed Effect Model based on the Hausman test. The first model (IC, ACA, IOWN) shows an adjusted R-squared of 0.401, meaning that 40.1% of the dependent variable can be explained by the independent variables, with the remaining 59.9% influenced by other factors. The F-statistic probability of 0.010 ($p < 0.05$) indicates that all independent variables together have a significant effect.

The second model (FP, FA, FG) has an adjusted R-squared of 0.362, showing that 36.2% of the dependent variable is explained by the model, and the F-statistic probability of 0.025 ($p < 0.05$) also indicates overall significance

Table 2 Hypothesis Testing Result (Fixed Effecr Model)

Variabel	N	Coefficient	Std. Eror	t-Statistic	Prob
C	10	-100.907	22.335	-4.518	0.004
IC	10	9.003	4.178	2.155	0.075
ACA	10	1013968187	892746041.5	1.136	0.299
IOWN	10	5.470	4.650	1.176	0.284

Variabel	N	Coefficient	Std. Eror	t-Statistic	Prob
C	10	72.950	122.945	0.593	0.575
FP	10	244.007	437.623	0.558	0.597
FA	10	364131764.2	1439620119	0.253	0.809
FG	10	-0.002	0.001	-2.237	0.067

Statistic	IC , ACA , IOWN	FP, FA, FG
R-Squared	0.601	0.575
Adjusted R-Squared	0.401	0.362
Prob (F-Statistic)	3.010	2.705

Individually, IC ($p = 0.075$), ACA ($p = 0.299$), and IOWN ($p = 0.284$) show no significant effect on the dependent variable. Similarly, FP ($p = 0.597$) and FA ($p = 0.809$) are insignificant, while FG ($p = 0.067$) shows a negative but marginally significant effect.

These results suggest that most governance variables do not significantly influence financial transparency, while firm growth may have a slight negative impact.

Discussion

This research offers valuable insights into relationship between the implementation of good corporate governance (GCG) and the level of financial transparency in state - owned enterprise (BUMN) within the Indonesia infrastructure and construction sector, specifically focusing on JSMR and WSKT during the 2020 - 2024 period. This period is significant as it coincided with

president Joko Widodo goverment development through the national strategic projects (PSN).

Based on the descriptive statistics, a substantial variation was observed in the Absolute Discretionary Accrual (ABSDA) value. The negative mean (ABSDA) value (–57.9939) suggests a tendency toward earnings management practices that decrease reported income among these SOEs. This financial behavior may stem from the inherent financial pressures and the complexity of financing massive toll road projects, which rely heavily on public funds and long term borrowing. Furthermore, the relatively low mean value of the Firm Profitability (FP) variable (0.0357) indicates that construction and infrastructure (BUMN) face challenges in maintaining operational efficiency and stable profitability amidst the acceleration of development.

Contrary to the theoretical framework, which posits that effective (GCG) positively influences financial transparency, the regression analysis results are notable. The variables for Independent Commissioner (IC), Audit Committee Activity (ACA), and Institutional Ownership (IOWN) do not have a statistically significant effect on financial transparency. This suggests that the formal establishment of governance mechanisms is insufficient to guarantee robust information disclosure if these structures lack genuine effectiveness and independence in practice. This finding is further supported by the (ACA)variable's value of 0.0000 implying a potential lack of active or disclosed audit committee meetings during the observation period.

Similarly, the Profitability (FP) and Firm Age (FA) variables also showed no significant influence on financial transparency. Conversely, the Firm Growth (FG) variable demonstrated a negative, though marginally significant, effect (P = 0.067). This result implies that as the companies accelerate their growth, there is a commensurate risk of decreased transparency, possibly due to management focusing intensely on project expansion at the expense of strengthening internal controls and oversight[14]. This is characteristic of the (2020–2024) era, where the rapid pace of infrastructure development may have led to situations where governance aspects became sub-optimal.

Collectively, these findings indicate that while (GCG) principles have been formally adopted by (BUMN) independence of oversight bodies and the efficacy of the internal audit function. The weak empirical link between (GCG) mechanisms and financial transparency may reflect the lingering impact of political interference, the pressures associated with strategic projects, and bureaucratic hurdles that impede the full implementation of ideal governance standards.

From a practical standpoint, the research emphasizes the critical need to shift from merely formal adoption of (GCG) to achieving a more substantive and effective implementation. The government, as the primary shareholder, must ensure that the audit committee and independent board members are vested with sufficient authority to genuinely oversee project management and financial reporting. Moreover, fostering an increase in institutional ownership by truly independent financial entities could help reduce undue political influence and enhance public accountability within these (BUMN)

Academically, this study contributes to the literature by providing empirical evidence on the effectiveness of corporate governance within state-owned enterprises in a developing economy like Indonesia. The findings, particularly within the context of the massive infrastructure drive under President Joko Widodo (2020–2024), underscore that large-scale development must be rigorously counterbalanced with strong governance and transparency to safeguard public trust in the (BUMN) sector.

Conclusion

Empirical evidence indicates that the implementation of Good Corporate Governance (GCG) among government-owned infrastructure firms, such as JSMR and WSKT, during the 2020–2024 period has been generally effective. Both enterprises have shown a consistent commitment to applying core GCG principles, including transparency, accountability, responsibility, independence, and fairness. Nevertheless, challenges remain, particularly regarding the limited openness in financial reporting and risk disclosure, despite continuous efforts to strengthen governance practices.

The analysis further demonstrates that corporate governance variables exert only a limited and statistically insignificant influence on financial transparency. Conversely, firm growth appears to have a slightly negative effect, implying that rapid expansion does not necessarily enhance transparency. This finding reinforces the notion that governance mechanisms and firm size alone are insufficient to improve financial disclosure, emphasizing the need for greater focus on the quality and consistency of information transparency.

Given that national strategic projects financed by public funds must be managed with the highest standards of honesty and accountability, enhancing transparency within state-owned infrastructure enterprises is imperative. Stronger transparency practices will help minimize irregularities, reinforce accountability in project management, and support the long-term success of national infrastructure development. Accordingly, it is recommended that SOEs adopt a more proactive approach to comprehensive financial and risk disclosure, while simultaneously strengthening internal and external monitoring systems to ensure more effective and sustainable governance outcomes.

In conclusion, while the overall implementation of GCG among Indonesia's infrastructure SOEs has been satisfactory, improving transparency remains a key priority to sustain public trust and to ensure the effective management of public funds in support of national strategic projects.

Acknowledgments

insightful contributions from the lecturers and supervisors, whose support greatly improved the quality of this paper.

The author would also like to express sincere appreciation JSMR and WSKT for their commitment and transparency in providing annual reports, corporate governance documents, and financial data published openly. These materials served as the primary data sources and played a crucial role in supporting the empirical analysis conducted in this research.

The author also wishes to thank fellow students and colleagues at Pamulang University for their moral support, academic discussions, and collaborative spirit, which greatly contributed to enriching the understanding and analytical depth of this research. In addition, the author expresses sincere appreciation to the Indonesia Stock Exchange (IDX) for providing an open data platform that facilitated access to various relevant corporate information.

Finally, the author would like to express sincere gratitude to his family and supervisors for their patience, prayers, encouragement, and unwavering motivation throughout the preparation of this research. Their support has been a significant source of strength and inspiration in completing this scholarly work.

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