

Exploring Stakeholder Engagement Governance Practices in the State-Owned Enterprises

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Abstract. This study explores and assesses the implementation of governance practices related to stakeholder engagement governance at PT. Industri Kapal Indonesia (IKI) and PT. Semen Tonasa. Both companies are State-Owned Enterprises (SOEs) located in South Sulawesi, Indonesia. The purpose of this study is to identify best practices in the implementation of governance in SOEs. The maturity level of the implementation of stakeholder engagement governance is also examined. The multiple case study method used in this research covers the two observed companies. The qualitative data obtained were analyzed by assessing the level of implementation. Several findings are highlighted in this study. First, the governance of stakeholder engagement practices in PT. IKI remains at a basic level, while in PT. Semen Tonasa it has reached the leadership level. Second, stakeholder mapping conducted by both companies provides positive results in managing stakeholder engagement. In addition, standards and procedures for communicating with stakeholders, complaint mechanisms, and external communication mechanisms for affected communities are identified as important practices. However, some issues require closer attention. For instance, employees are given confidential and direct access to an independent board member to raise complaints with the company to improve the quality of stakeholder engagement governance. Various other factors that may potentially influence the practice of stakeholder engagement governance in SOEs—such as company commitment to environmental, social, and governance aspects—require further exploration in the future.

Keywords: stakeholders engagement governance; state owned enterprises; case study; maturity level.

INTRODUCTION

Good corporate governance has become increasingly important since the business environment is increasingly dynamic, characterized by rapid, complex, uncertain, ambiguous changes as a result of technological transformation (Effendi, 2016; Kusmayadi et al., 2015; Omsa et al., 2023; Syofyan, 2021). (Rezaee, 2008) states that corporate governance is a process influenced by regulatory instruments, laws, market mechanisms, recording standards, reference practices, and efforts of all parties in the company. Meanwhile, the (IFC Corporate Governance Progression Matrix for State-Owned Enterprises, 2019) states that state-owned company governance has 6 dimensions, namely: (1) Commitment to the Environment, Social, and Governance; (2) Structure and Function of the Board of Directors; (3) Control Environment; (4) Disclosure and Transparency; (5) Shareholder Rights; and (6) Stakeholder Engagement Governance.

According to (Qisthi & Fitri, 2021), a person, group, or organization that has an interest in a particular organization is called a stakeholder. Naturally, a business cannot function effectively without the support of stakeholders. The main stakeholders vary by industry (Feijoo et al., 2014). Some examples of stakeholders are shareholders (owners), directors, employees, suppliers, creditors, customers, government, NGO, and community (Omsa et al., 2023). (OECD, 2024) Improving the caliber of SOE connections with their stakeholders requires creating strong assessment frameworks and including a variety of stakeholders at every stage of the programming cycle. Good governance aims to ensure that companies operate ethically, responsibly and that the interests of all stakeholders are considered in a fair and balanced manner.

Previous researches that measure the level of corporate governance implementation still focused on the control environment, board structure, and internal audit, while there was very little research investigating stakeholder engagement governance as part of good corporate governance. Research by (Arif, M. R. Ishak, Andi, A. A. Tamrin. Jayadi, 2021), for example, focused on the control environment in drinking water companies in South Sulawesi, (AlHares, 2020) focused on investigating the influence of ownership structure and board structure on risk taking as measured by research and development

intensity in Organization for Economic Cooperation and Development (OECD), and (Yusun, Jung., Moon K, 2022) investigated the impact of internal audit function and audit committee on internal audit standards and procedures.

In Indonesia, the implementation of good corporate governance in SOE has been mandatory since the enactment of the (Peraturan Menteri Badan Usaha Milik Negara Nomor PER-2/MBU/03/2023 Tahun 2023 Tentang Pedoman Tata Kelola Dan Kegiatan Korporasi Signifikan Badan Usaha Milik Negara, 2023). This confirmed that all SOE business entities in Indonesia must implement the principles of good corporate governance such as transparency, accountability, responsibility, independence, and fairness. Experience showed that the economic downturn in various countries including Indonesia, among other things, was caused by companies do not consistently implementing the principles of good corporate governance. (Purwanto, G K., Mustamu, 2013) believe that the failure of large companies, financial scandals and crises in several countries have focused attention on the importance of good corporate governance.

In State-Owned Enterprises, the government has a dual role in realizing the principles of good corporate governance. Beside acts as a regulator and policy maker, the government also acts as a business actor through SOE (Undang-Undang (UU) Nomor 19 Tahun 2003 Tentang Badan Usaha Milik Negara, 2003). This dual role can be interpreted through policies made related to the implementation of corporate governance which will ultimately be carried out by the government itself through SOE, because the majority SOE shareholder in the government authority. Based on the above description, the role of SOE in driving state revenues plays an important role. Therefore, measuring the level of SOE maturity in implementing good corporate governance is also urgent. The previous researches mostly focused on internal audit, the board structure, and the control environment, but there was less research on the governance of stakeholder involvement as a component of sound corporate governance. Hence, this research aims to assess the level of SOE maturity in implementing good corporate governance by focusing on the governance dimension of stakeholder engagement of the SOE.

The benefit of this research lies in offering empirical evidence that can guide policymakers and SOE leaders in strengthening governance practices, ensuring greater transparency and accountability, and ultimately enhancing the contribution of SOEs to national revenue and sustainable development. In addition, the findings are expected to enrich the academic literature on corporate governance by addressing the gap in studies that focus on stakeholder engagement as a crucial element of governance maturity.

RESEARCH METHOD

Case study in two state-owned enterprises located in South Sulawesi, Indonesia was implemented in this research. Case study research is a research technique that utilizes several research results to gain a more comprehensive understanding of a particular phenomenon. This research examined two cases to analyze patterns and relationships between variables. According to (Arif, M. R. Ishak, Andi, A. A. Tamrin. Jayadi, 2021), the case study research method is generally used in management to investigate a specific topic or subject more thoroughly. It is an organized method of collecting and examining data from several sources, including people, groups, and communities. (Assche et al., 2022) stated that the use of case study research methodology enables researchers to get a more profound understanding of intricate issues by taking into account various viewpoints, settings, and data sources. This study selected two state-owned enterprises located in South Sulawesi namely PT. Industri Kapal Indonesia (PT. IKI) and PT. Semen Tonasa. The selection process was based on the willingness of the company to provide data on the implementation of corporate governance. In addition, the companies observed must have a website that can easily be accessed regarding the implementation of corporate governance. Basic profile of both companies is shown as follows:

Table 1. Company Profile of Case Studies

Item	PT. IKI	PT. Semen Tonasa
Year of establishment	1977	1969
Headquartered	Makassar City	Pangkep Regency
Legal status of company	Limited liability company	Limited liability company
Listed in stock change	No	Yes

*Good Corporate Governance Index

Source: Company Secretary of PT. IKI and PT. Semen Tonasa (2024)

The data collection techniques used were structured interviews, observations, and document reviews. Eight informants in total were included in each case study, each of which examined multiple informants regarding stakeholder engagement governance practices. The following criteria were used to choose informants for each case study: The informant has worked for the relevant company for more than five years, and they have been in their current role for more than a year. The table of informants in this study is as follows:

Table 2. Informant Profiles

Infromant	PT. IKI	PT. Semen Tonasa
Director Board	-	1 (IF-2a)
Supervisory Board	2 (IF-1a; IF-1b)	-
Senior Manager	1 (IF-1c)	1 (IF-2b)
Staf	1 (IF-1d)	2 (IF-2c; IF-2d)

Note: Informants' code in parentheses

Source: HRD of PT. IKI and PT. Semen Tonasa (2024)

The results of this data collection are then triangulated to confirm among collected data. This research stage began with a preliminary study related to the implementation of corporate governance. Furthermore, a search for the SOEs classification in Indonesia was carried out, while determining the SOEs to be observed. After that, the formulation of the problem, research objectives, and informants were determined. The next stage was data collection through interviews, observations, and document reviews. At this stage, data and information triangulation was also carried out to see the consistency among data and information before assessing the implementation of corporate governance. The results of the data and information triangulation were used to assess and compare the level of observed enterprises maturity in the context of implementation stakeholder engagement governance. From the assessment, best practices in stakeholder engagement management and things that need to be improved for the future will be found.

RESULTS AND DISCUSSION

The application of stakeholder engagement governance in two case studies is described in this section. After providing a brief overview of the organizations under observation, the four attributes (Stakeholder Mapping; Stakeholder Engagement Policy; Worker Complaint Mechanism; and Complaint Mechanism for Affected Communities) of stakeholder engagement governance are put into practice.

PT. Industri Kapal Indonesia (PT. IKI)

When evaluating stakeholder participation, the following five settings are depicted stakeholder mapping, stakeholder engagement policy, worker complaint mechanism, and complaint mechanism for affected communities. Those four attributes are discussed as the following:

Based on the interview results, it was found that the company has a department that is responsible for managing relations with external stakeholders, one of its tasks is to map stakeholders. As stated by the informant that "Workers, clients, regulators, and impacted local communities are among the stakeholders that are ad hoc identified" (IF-1c). Nevertheless, based on the document review, the business does not properly map the process and extension of stakeholder categories to encompass international civil society organizations, contract workers, workers in the primary supply chain, nearby projects, and NGOs. In regards to stakeholder policy, the company has development, institutional, and public relations section which is in charge of formulating policies pertaining to external stakeholders. However, until now the tasks carried out have only been limited to make policies related to internal stakeholders, and are still very limited to make policies related to the interests of external stakeholders. This in line with the interview results stated that "in decision and policy making, the company only involves internal stakeholders. External stakeholders have not been involved. The Commissioner board plays an important role in representing the interests of external stakeholders" (IF-1d). Furthermore, based on the document review it was found that the company does not disclose stakeholder engagement policies and provides information on their implementation publicly.

In relation to worker complaint mechanism, the results of the interview with IF-1d stated that "there is a mechanism for handling complaints from stakeholders such as suppliers, employees and

others in the company" (IF-1d). Based on the observation results it was found that the company has facilitated a complaint mechanism for workers through the company's official website. However, other interview results stated that "the workers have not been given confidential and direct access to independent board members" (IF-1b). Finally, the company has provided a complaint service that allows stakeholders to provide feedback on the company's activities. It is supported by interview results stated that "a complaint mechanism has been established for questions and complaints from affected communities" (IF-1a). To confirm this statement, observation technique has been carried out and reveal that there is a public service for complaints on the company website. To be more affected, the stakeholder engagement policies should be incorporated into the requirements for contractors. A plan of action for handling outstanding stakeholder issues was also need to be prepared.

PT. Semen Tonasa

As the company's largest shareholder, PT. Semen Indonesia (Holding company) determines who the stakeholders in PT Semen Tonasa are. This suggests that parties deemed to have an interest in the operations and long-term viability of PT. Semen Tonasa's business are largely determined by Semen Indonesia. The interview results with IF-2a show that "contract laborers, key supply chain laborers, adjacent projects, non-governmental organizations, and global civil society groups are all included in the formal stakeholder mapping process and the growth of stakeholder categories" (IF-2a). The document review also shows that a senior executive in PT. Semen Tonasa is appointed by PT. Semen Indonesia to be responsible for stakeholder relations, including ensuring integration with strategy and target setting. In regards to stakeholder engagement policy, the Legal Governance Risk Compliance (LGRC) Department at PT. Semen Tonasa plays a crucial role in managing stakeholder relations and the company's external communications. The direct reporting line to the president director demonstrates the importance of transparency and accessibility in the company's external communications. The responsibility of senior executives, such as the Board of Directors and the LGRC General Manager in managing stakeholder relations demonstrates the company's commitment to maintaining good relations and ensuring effective communication with all relevant parties. The interview results also showed that "the company makes its stakeholder engagement policy available to the public and offers details on how it is being implemented" (IF-2b). The interview results were confirmed by the document review results which showed that the stakeholder engagement policies and strategies include procedures with stakeholder analysis, differentiated approaches to priority groups, recurring disclosure and consultation requirements, as well as reporting. In relation to Worker Complaint Mechanism, some best practices regarding worker complain mechanism in the company are: providing a basic grievance procedure and a policy for whistleblowers, concerns from employees and contract workers are addressed by management, and the outcomes together with patterns of the complaints are routinely reported to the Board. Apart from it, interview results showed that "issues raised through the worker grievance mechanism are analyzed and resolved with the participation of worker representatives" (IF-2d).

In managing external stakeholder complaints, the company has standards and procedures for communicating with stakeholders, complaint mechanisms, and external communication mechanisms. The complaints from affected communities are analyzed regularly, as interview results showed that "senior management analyzes complaints periodically to identify trends and root causes. The management also actively participates in international industry discussions on related topics" (IF-2c). Document review results show that senior management actively join the discussion on sustainable and equitable development, strategies for dealing with environmental pollution hazards, and efforts to minimize the negative impacts of natural resource exploitation. The document also reveals that stakeholder engagement and reporting are consistent with international standards (AA 1000 Standards on Stakeholder Engagement and Accountability Principles and ISO 26000). Finally, using the maturity level framework developed by the IFC World Bank (2019), researchers assessed the implementation of stakeholder engagement governance based on the findings of the above observations, interviews, and document reviews. Starting with Basic Practices, Intermediate Practices, Good International Practices, and Leadership, the framework employs four company maturity levels (IFC, 2019)⁽³⁾. Table 3 provided an explanation of each case study's governance implementation level.

Table 3. Level of Implementation

Level of Implementation	PT. IKI	PT. Semen Tonasa
Basic Practice		
Stakeholders are identified on an ad hoc basis.	√	√
Stakeholders have access to obtain compensation	√	√
HR policies and procedures for employee engagement are in place	√	√
Informal responses to stakeholder requests and concerns already exist	√	√
Intermediate Practices		
Key stakeholders identified also local NGOs and civil society organizations (CSOs).	x	√
The company makes its stakeholder engagement policy available to the public		√
The board is informed about complaint outcomes and trends on a regular basis.	√	√
External communication mechanisms for affected communities are in place.	√	√
Good International Practices		
Contract employees, key supply chain employees, contiguous projects, NGOs, and global CSOs are all included in the formal stakeholder mapping process.	x	√
Procedures for conducting stakeholder analyses, distinct approaches to priority groups, ongoing disclosure and consultation obligations, and reporting are all examples of stakeholder engagement policies and practices	x	√
Employees have direct and private access to independent board members.	x	√
The criteria for contractors include policies for stakeholder participation.	x	x
Unresolved stakeholder issues are subject to a management action plan.	x	√
Leadership		
A senior manager has been designated as being in charge of stakeholder interactions.	x	√
A code of conduct is used by employees, contractors, suppliers, and collaborators to show their commitment to stakeholder involvement.	x	√
Worker representatives participate in the analysis and resolution of issues brought up through the grievance system.	x	√
Senior management analyzes complaints on a regular basis to find patterns and the underlying issues that affect stakeholders.	x	√
Senior management actively participates in international industry discussions on related topics.	x	√
Stakeholder engagement and reporting are consistent with international standards (AA1000 Standards on Stakeholder Engagement and Accountability Principles and ISO 2G000).	x	√

Table 3 shows that PT. IKI and PT. Semen Tonasa have proven that they are dedicated to developing a foundational approach to stakeholder engagement governance. In the basic practices level, both companies fully implemented the stakeholder engagement governance. However, in the intermediate practices level, PT. IKI did not identify yet the local NGOs and civil society organizations (CSOs) as the key stakeholders, whereas PT. Semen Tonasa already implemented it effectively. Furthermore, in the good international practices level and leadership level, none of the components were implemented by PT. IKI. This is in contrast with PT. Semen Tonasa where nearly every component had been put into practice, except contractor requirements still were not be included yet in the stakeholder participation policies. The process of involving stakeholder in the contractor requirements need a long discussion and negotiation between PT. Semen Tonasa management and its stakeholders, particularly with reference to their contractual rights and obligations of both parties.

Based on the explanation can be stated that the aforementioned companies' practices demonstrate a distinct trend. While some things are defined at intermediate practices, good international practices, and leadership practices, the PT. IKI implementation level is identified at the basic practices level. Additionally, PT. Semen Tonasa implementation level is identified at leadership implementation level, despite the fact that the company falls short on one good international level requirement, such as contractor requirements do not include yet in the stakeholder participation policies.

The implementation of stakeholder involvement governance in both companies confirmed that it in line with (Purwanto, G K., Mustamu, 2013) who believe that managers of companies are becoming

more and more aware of the value of sound corporate governance by considering the impacts on its stakeholders from each policy and decision made the company management both socially and environmentally.

CONCLUSION

This study is successful in identifying a number of best practices for implementing stakeholder engagement governance. Stakeholder engagement governance methods have been applied at the basic and leadership practice levels by the management of PT. IKI and PT. Semen Tonasa respectively. PT. Semen Tonasa is highly committed to implementing good governance in terms of stakeholder engagement governance, as evidenced by the existence of a functional unit to map the external stakeholder, regular updates to the board regarding complaint outcomes and trends, and the implementation of external communication mechanisms for affected communities. Moreover, it is noted that one element that has contributed to success thus far in the stakeholder involvement governance is the availability of standards and procedures for communicating with the affected stakeholders. The findings of this study contribute to the body of knowledge about the application of sound corporate governance, particularly with regard to stakeholder engagement governance. Future research may focus on comparing and contrasting the implementation of stakeholder engagement governance in SOE or focus on the company commitment to the environment, social, and governance, where the last obtains top priority from interested parties, particularly the impacted communities and the government. The research team is fully aware that with the help of many people, this paper might be finished. For this reason, the research team would like to express its gratitude to the Director of Politeknik Negeri Ujung Pandang and the Education Quality Assurance Development Center (P3MP) for providing the necessary facilities to enable the timely and successful completion of this work.

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