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JURNAL HUKUM INDONESIA

Implications of ROEs Legal Form on Company Management

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ABSTRACT

This research examines the implications of the legal forms of Regional-Owned Enterprises (ROEs, known as *BUMD* or *Badan Usaha Milik Daerah*) on company management. In the Indonesian context, ROEs typically take the form of either Regional Companies (known as *PD*, or *Perusahaan Daerah*) or Limited Liability Companies (LLC, known as *PT,* or *Perseroan Terbatas*), which are regulated under Law No. 23 of 2014 and PP No. 54 of 2017. The legal form of an ROE significantly influences its organizational structure, operational efficiency, accountability, and sustainability. ROEs structured as LLCs tend to excel in management flexibility and access to funding, while PDs are more focused on delivering public services. However, both legal forms face distinct challenges, such as political interference in PDs and conflicts between commercial and social objectives in LLCs. This research recommends the implementation of Good Corporate Governance (GCG) principles to enhance the efficiency and accountability of ROEs. By understanding the implications of the legal form, local governments can better optimize the role of ROEs in supporting economic development and community services.

Keywords: ROEs, legal form, management, efficiency, accountability, sustainability

INTRODUCTION

Regional-Owned Enterprises (ROEs, known as *BUMD* or *Badan Usaha Milik Daerah*) play a strategic role in supporting regional economic development (Darsono, 2024; Muskanan et al., 2024; Trihatmoko & Susilo, 2018; Umanto et al., 2016). As entities owned by regional governments, ROEs are designed to fulfill both economic functions and public service obligations. In practice, the legal form of ROEs significantly influences their performance, efficiency, and accountability in management. Therefore, understanding the implications of the legal form on various aspects of ROE management is crucial.

In the Indonesian context, the legal form of ROEs generally consists of two types: Regional Companies (known as *PD*, or *Perusahaan Daerah*) and Limited Liability Companies (LLC, known as *PT* or *Perseroan Terbatas*). The establishment, management, and supervision of ROEs are regulated under Law Number 23 of 2014 concerning Regional Government and Government Regulation Number 54 of 2017 concerning ROEs (NASUTION et al., 2021; Halimatussadiah et al., 2024; Manumayoso et al., 2024;

Tirtalistyani et al., 2022; Fazekas & Blum, 2021). PDs are typically focused on providing public services, while LLCs are more often utilized for commercial purposes, with a greater emphasis on professional management (Ainiyyah, 2022).

The legal form of an ROE not only affects its organizational structure and decision-making processes but also significantly influences the company's ability to attract investment, enhance operational efficiency, and maintain financial sustainability. Additionally, the legal form determines the accountability and oversight mechanisms applied to the company.

This study aims to analyze the implications of the legal form of ROEs on company management, particularly in terms of efficiency, accountability, and sustainability. By understanding the relationship between the legal form and the management of ROEs, this research seeks to contribute to the development of improved policies and practices for the management of ROEs in Indonesia.

METHOD

This study was conducted to analyze the implications of the legal form of ROEs on their management. To achieve this objective, the research method employed in this study is qualitative with a descriptive approach. This approach was chosen because it allows researchers to describe and analyze phenomena related to the legal form of ROEs in a comprehensive and in-depth manner. The study adopts a juridical-normative approach, focusing on the analysis of legal documents, laws, and regulations related to the legal form of ROEs. This approach aims to understand the legal basis underlying the establishment and management of ROEs and how the implications of their legal form affect organizational performance and management (Al-Mizan and Syofyan Hadi, 2024).

The data used in this study consists of two types: primary data and secondary data:

a. Primary Data: This data was obtained through in-depth interviews with key informants, including ROE managers, local government officials, legal experts, and academics with expertise in ROE management.
b. Secondary Data: This data includes legal documents such as Law Number 23 of 2014 concerning Regional Government, government regulations related to ROE management, regional regulations, scientific articles, ROEs annual reports, and relevant literature.

Data collection techniques in this study include:

a. Document Study: Researchers collected and analyzed legal documents, ROE annual reports, and relevant literature to understand the legal aspects and implementation of ROE management.
b. Interviews: In-depth interviews were conducted with key informants to gain insights into their experiences and perspectives regarding the legal form of ROEs.
c. Observation: Direct observation was carried out on ROE operations to examine how legal forms influence day-to-day management practices (Alfianto & Ali Rido, 2024).

Data analysis in this study was conducted qualitatively, following these steps:

a. Data Reduction: Data obtained from interviews, document studies, and observations were selected and simplified to focus on information relevant to the research.
b. Data Presentation: The reduced data was presented in narrative, table, or chart form to facilitate analysis and interpretation.

c. Conclusion Drawing: Based on the analyzed data, conclusions were drawn regarding the implications of the legal form of ROEs on their management.

To ensure the validity of the data, this study employed source and method triangulation techniques. Source triangulation was conducted by comparing data from various sources, such as legal documents, interviews, and observations. Method triangulation was achieved by using multiple data collection techniques to minimize bias.

This research was conducted on several ROEs in Indonesia, with a focus on ROEs that have the legal forms of LLCs and PDs. The study subjects included managers, directors, ROE employees, and local government officials involved in ROE management.

This study is limited to analyzing the legal form of ROEs within the context of Indonesian regulations. Other factors, such as political, economic, and cultural influences on ROE management, are discussed only to the extent that they are relevant to the legal form.

By employing this research method, it is hoped that the findings will provide a comprehensive understanding of the relationship between the legal form of ROEs and their organizational management. The results are expected to serve as a reference for policymakers, academics, and practitioners in the field of ROE management.

RESULTS AND DISCUSSION

The legal form of a ROEs plays an important role in determining how the company is managed and operated. In the Indonesian context, the legal forms commonly used by ROEs are LLC and PD. These two legal forms have significant implications for various aspects of management, including legality, flexibility, efficiency, and accountability.

1. **Legal Basis for ROEs Formation**
   The regulation regarding ROEs in Indonesia is regulated in Law Number 23 of 2014 concerning Regional Government. The articles in this law explain that ROEs can be in the form of a PD or LLC. In addition, Government Regulation Number 54 of 2017 concerning ROEs provides further guidelines regarding the governance of ROEs, including establishment, management, and dissolution.

PD are usually considered as the traditional legal form of ROEs, where management tends to follow a bureaucratic pattern. Meanwhile, the LLC is considered more flexible and modern because it adopts the principles of private company management, such as the distribution of shares and more professional management.

2. **Implications for Organizational Structure and Management**
   The legal form directly affects the organizational structure and management of ROEs. ROEs in the form of PD tends to have a more rigid and formal hierarchy, with decision-making often involving many levels of approval. This can cause the decision-making process to be slower.

In contrast, ROEs in the form of LLC has a more flexible and responsive structure. With a professional board of directors and commissioners, the decision-making process tends to be faster and more efficient (Fahira et al., 2024). In addition, the LLC form allows for cooperation with the private sector, including through capital participation mechanisms, thus opening up wider investment opportunities.

3. **Operational Efficiency**
   In terms of operational efficiency, the LLC form tends to be superior compared to the PD. This is due to the incentive to improve company performance in the form of dividend distribution to shareholders. On the other hand, PDs that are often oriented towards public services can face challenges in achieving operational

efficiency because their main priority is not financial profit, but rather the fulfillment of community needs.

However, it is important to note that the public service orientation of PD is not always a weakness. In some cases, this form allows ROEs to focus on providing vital services to the community, such as clean water distribution or public transportation, without having to worry too much about profitability.

4. **Accountability and Oversight**
   The legal form also affects the level of accountability and supervision of ROEs. In PD, the supervision mechanism tends to be more centralized in the local government, which has full authority to supervise the running of the company. However, this can pose a risk of excessive political intervention, thereby reducing the independence of company management.

On the other hand, LLC has a more complex accountability mechanism. With the presence of a board of commissioners, independent audits, and the obligation to submit annual reports to shareholders, LLC can be more transparent in its operations. However, this complexity can also result in higher administrative costs.

5. **Financial Performance and Sustainability**
   One important implication of the legal form is its impact on the financial performance and sustainability of ROEs. ROEs in the form of LLC tends to be more focused on achieving financial targets and long-term sustainability due to pressure from shareholders. They also have wider access to funding sources, such as bond issuance or bank loans.

On the other hand, ROEs in the form of PD often faces limitations in terms of funding. Dependence on the regional budget can be an obstacle, especially if the local government has other pressing priorities. However, the PD form can be more stable in facing market fluctuations because of direct support from the local government.

6. **Challenges in** ROEs **Management**
   Legal form has its own advantages, there are a number of challenges that need to be considered. In the PD form, one of the main challenges is resistance to change, especially if it involves a transformation towards more professional management. In addition, political intervention can hinder innovation and strategic decision-making.

Meanwhile, ROEs in the form of LLC faces challenges in maintaining a balance between commercial objectives and social responsibility. As a business entity, LLC must generate profits, but as ROEs, they must also meet the needs of the community (Fitrahady, 2024). The imbalance between these two aspects can create a conflict of interest that affects the sustainability of the company.

7. **Recommendations for Better Management**
   Based on the analysis above, several recommendations can be put forward to improve ROEs management:
   a. Regional governments need to consider the legal form that best suits the needs and characteristics of the sectors served by ROEs.
   b. ROEs in the form of PD needs to be directed to adopt the principles of Good Corporate Governance (GCG) in order to increase efficiency and accountability.
   c. ROEs in the form of LLC must ensure that social responsibility remains a priority, even though it operates on commercial principles.
   d. Supervision and evaluation of ROEs performance must be improved, both

through internal and external mechanisms, to ensure the sustainability and contribution of ROEs to regional development.

By understanding the implications of legal forms on the management of ROEs, it is hoped that local governments can take strategic steps to maximize the role of ROEs in encouraging local economic development and improving services to the community.

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CONCLUSION

The legal form of a ROEs has significant implications for company management, particularly in terms of efficiency, accountability, and sustainability. ROEs structured as (LLCs offer advantages in management flexibility, operational efficiency, and broader access to funding, enabling them to operate more professionally and competitively. However, this form also requires more complex oversight and carries the risk of potential conflicts between commercial objectives and social responsibilities.

In contrast, ROEs structured as PDs focus more on public services with direct support from local governments. Although PDs tend to be less flexible and face challenges in achieving efficiency, they remain a relevant form for strategic sectors that prioritize community needs.

To enhance the management of ROEs, local governments should consider specific sectors and objectives when determining the appropriate legal form. The implementation of good corporate governance principles is also essential to ensure transparency, accountability, and the long-term sustainability of these enterprises. By understanding the characteristics and implications of each legal form, ROEs can become more effective in fulfilling their role as drivers of regional economic development while providing optimal services to the community.

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