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## Corporate Governance Failures Leading to Bankruptcy in State-Owned Enterprises (SOEs) Subsidiaries

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### Abstract

**General Background:** Good Corporate Governance (GCG) is essential for ensuring corporate integrity and preventing financial distress, particularly within State-Owned Enterprises (SOEs). **Specific Background:** Recent bankruptcy cases involving SOE subsidiaries reveal persistent weaknesses in transparency, accountability, and supervisory mechanisms, as exemplified by the collapse of PT Indofarma Global Medika (IGM). **Knowledge Gap:** Existing studies often assess fraud or GCG violations in isolation, lacking analysis that connects governance failures to legal and financial consequences within SOE parent–subsidiary structures. **Aims:** This study examines how suboptimal GCG implementation contributes to bankruptcy risks in SOE subsidiaries and evaluates the legal and managerial implications for parent entities. **Results:** Findings show that repeated fraud, inadequate risk management, and ineffective oversight created structural vulnerabilities that escalated into insolvency during the Suspension of Debt Payment Obligations process. **Novelty:** The research establishes a direct causal link between GCG failure and subsidiary bankruptcy within the specific legal framework governing SOEs, highlighting accountability gaps in parent–subsidiary governance. **Implications:** Strengthening GCG enforcement is critical to safeguard state assets, enhance supervisory effectiveness, and prevent future insolvencies in SOE corporate groups.

#### Highlights:

- Suboptimal GCG implementation in SOE subsidiaries significantly increases bankruptcy risk.
- Parent–subsidiary governance gaps weaken supervision and allow fraud to recur.
- Strengthening risk management and accountability is crucial to protect state assets.

**Keywords:** Good Corporate Governance, State-Owned Enterprises, Bankruptcy, Parent–Subsidiary Governance, Risk Management

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## Introduction

As a driving force of the national economy, the Ministry of State-Owned Enterprises holds a strategic role in managing state assets across various sectors to maintain national economic stability. In carrying out its duties, State-Owned Enterprises are regulated under Law Number 1 of 2025 concerning the Third Amendment to Law Number 19 of 2003 regarding State-Owned Enterprise (“State-Owned Enterprises Law”) [1]. The latest amendment to the State-Owned Enterprises Law introduces the establishment of the State Assets Investment Management Agency Daya Anagata Nusantara (“Danantara”), whose presence is intended to strengthen supervision over corporate governance by ensuring that the management of State assets is conducted in a professional and sustainable manner. This regulation serves as the legal foundation for the existence of State-Owned Enterprises companies in Indonesia, with the objective of generating the maximum possible profits for national welfare. One of the forms of enterprises established by the State as State-Owned Enterprises is a Limited Liability Company, characterized by the fact that the majority or all of its shares are directly owned by the State, which aims to generate profits. In addition to the State-Owned Enterprises Law, State-Owned Enterprises are also required to comply with Law Number 40 of 2007 on Limited Liability Companies (“Company Law”). These regulations embody the principles and doctrines that must be implemented by State-Owned Enterprises as a form of legal compliance in the performance of their duties.

One of the fundamental principles that serves as a key pillar in corporate management is the principle of Good Corporate Governance (“GCG”) [2]. This principle functions to maintain the integrity and sustainability of a business, as stipulated in Regulation of the Minister of State-Owned Enterprises Number PER-2/MBU/03/2023 concerning Guidelines for Corporate Governance and Significant Corporate Activities of State-Owned Enterprises (“MoSOE Regulation 2/2023”). The principle comprises five main components: transparency, accountability, responsibility, independency, and fairness. When these principles are implemented optimally, they will foster a healthy and transparent corporate environment, minimizing the risk of fraud and preventing potential losses to the company.

Normatively and empirically, the principles of GCG function as an early warning system, particularly in accountability and responsibility, which serve to ensure professionalism and prevent abuse of authority in accordance with State-Owned Enterprises regulations. However, in reality, there still exists tension between this normative framework and empirical reality. This is due to the absence of clarity regarding legal liability arising from the failure to implement GCG principles. In fact, such failures often lead to fatal legal issues, one of which is financial loss caused by fraud and abuse of authority in corporate decision-making. These problems can drive a company into the abyss of bankruptcy, and if it occurs in a State-Owned Enterprise company, it will affect the dividend contributions of the State-Owned Enterprises. Furthermore, bankruptcy will also have an impact on many aspects, such as a decline in company value, mass layoffs, loss of company assets, and even fatal consequences on the state’s financial reports that lead to losses. Therefore, the supervisory function is very important to ensure that the implementation of GCG principles in the company has been carried out optimally as the last bastion in protecting state assets. This is the important foundation for the urgency of this research.

In practice, this is evident in the case of PT IGM, a subsidiary of PT INAF, the parent company which is a state-owned enterprise operating in the health sector. The failure of GCG was marked by reports of indications of fraud directed at IGM, which impacted the recording of losses at INAF. This case was included in the Report of the Supreme Audit Agency in the Summary of Audit Results for the Second Semester of 2023 (IHPS II 2023), signed by the Chairman of BPK RI on 28 March 2024. The fraudulent actions absolutely resulted in financial losses starting from the subsidiary, the State-Owned Enterprises parent company, and even rippled into state financial losses. This is because the fraud was known to have been committed repeatedly according to the IHPS II 2023 Report. This provides information that weaknesses still exist in governance and a lack of supervision within the company regarding the implementation of GCG principles in the parent–subsidiary relationship of State-Owned Enterprises companies. Following the report of these indications, IGM faced legal problems related to the Suspension of Debt Payment Obligations proceedings. Based on the Supreme Court Decision Number 144/Pdt.Sus-PKPU/2024/PN.Niaga.Jkt.Pst in that case, IGM acted as the respondent and one of its creditors acted as the applicant. During the Suspension of Debt Payment Obligations period, the creditors rejected the reconciliation proposal submitted by IGM. This was because the voting results did not fulfil the elements of reconciliation under Law Number 37 of 2004 concerning Bankruptcy and Suspension of Debt Payment Obligations (“Bankruptcy and Suspension of Debt Payment Obligations Law”). As a result of the rejection, IGM was declared bankrupt along with its legal consequences. The bankruptcy of IGM naturally had an indirect impact on INAF, as it resulted in reduced dividends and losses recorded in the company’s books.

The bankruptcy case that occurred at IGM can certainly affect the intensity of public trust in the government’s ability to manage companies. In addition, INAF also suffered financial losses and faced issues related to its responsibility and business continuity as the parent company of IGM. This can be proven through the Consolidated Financial Statements as of 31 December 2024, which explain that 99.99% of IGM’s shares are owned by its parent company, namely INAF [3]. On the other hand, the bankruptcy of a State-Owned Enterprises subsidiary also triggers questions regarding the effectiveness of the implementation of GCG principles in governance within the State-Owned Enterprises environment. The IGM case highlights complex issues that were not covered in previous studies. Although many studies have discussed GCG in State-Owned Enterprises companies or fraud cases in general, such research remains insufficient and tends to stop at the analysis of fraud or GCG violations alone without delving deeper into the further legal implications for State-Owned Enterprises companies. Moreover, the lack of focus on legal implications and losses from the perspective of governance failure creates a crucial research gap.

In conducting the analysis and evaluation of the implementation of GCG principles at IGM, it is relevant for the author to use

regulations that specifically govern corporate governance. Its function is to focus the research in depth on the causes of bankruptcy at IGM. In addition to focusing on the causes, the author will also focus on the consequences of the subsidiary's bankruptcy on the State-Owned Enterprises parent company. This is because of the parent–subsidiary relationship in the company's governance. Furthermore, since this case still refers to the State-Owned Enterprises Law before its amendment, the author will also use the previous State-Owned Enterprises Law as the main reference in conducting the analysis and the 2025 State-Owned Enterprises Law as the new legal context that demonstrates the state's commitment to continuously strengthen State-Owned Enterprises and strive to prevent similar cases from recurring. The empirical urgency that occurred at IGM and the gap in existing research are very important because they provide a different contribution from previous studies. This research specifically links the failure to implement GCG principles as the root causality of the Suspension of Debt Payment Obligations process leading to bankruptcy in State-Owned Enterprises subsidiaries. Therefore, the author conducts this research under the title “The Role of Good Corporate Governance in Preventing Bankruptcy of State-Owned Enterprise Subsidiaries”. It is hoped that this research will provide theoretical contributions and practical insights into the importance of implementing GCG principles in companies to avoid vulnerability to bankruptcy by strengthening the corporate governance system.

## Method

In this study, the author employs a normative juridical research method with several research approaches, namely the statutory approach, conceptual approach, and case approach. The use of these combined approaches aims to provide a comprehensive and in-depth understanding of the legal issues being analyzed. The data collection technique applied in this research is library research, which involves examining and analyzing various legal materials such as books, legislation, court decisions, academic journals, and other credible written sources relevant to the research topic [4]. The data used in this study are based on the perspective of Peter Mahmud Marzuki, who asserts that legal research focuses on legal materials rather than empirical data. Hence, the primary emphasis of this research lies in the identification, interpretation, and analysis of legal norms and doctrines that are pertinent to the study of GCG and bankruptcy prevention within State-Owned Enterprises and their subsidiaries [5]. Thus, the secondary data sources in this study are obtained from primary, secondary, and tertiary legal materials. Once the secondary data have been collected, the author proceeds to conduct a structured data analysis, which is presented in both a descriptive and evaluative manner. All relevant data gathered for this research are analyzed using a qualitative method, allowing for a comprehensive understanding of how the principles of GCG are applied within corporate environments — particularly in the context of State-Owned Enterprises and their subsidiaries. This qualitative analysis aims to reveal the extent to which GCG principles are implemented effectively and to identify the underlying factors that influence their success or failure in practice.

## Result and Discussion

### A. Regulation of Good Corporate Governance Principles in State-Owned Enterprise Subsidiaries Based on the Provisions of MoSOE Regulation 2/2023

The principle of GCG, also known as good corporate governance, was introduced by the Organization for Economic Cooperation and Development (OECD) with the aim of enhancing company value, particularly during times of crisis.[6] Essentially, good corporate governance refers to an instrument for managing the relationship between the rights, obligations, and interests of a company's organs—both internally and externally—in order to create a stable and healthy corporate environment [7]. From a legal perspective, the implementation of good corporate governance has been explicitly mentioned in the General Elucidation of Article 4 of the Company Law, which states that the existence of that legislation does not affect a company's obligation to apply GCG principles. Furthermore, the State-Owned Enterprises Law also stipulates that the administration of State-Owned Enterprises is based on economic democracy, one of the pillars of which is good corporate governance. These provisions clearly indicate that the application of GCG is mandatory for companies [8].

Specifically with regard to State-Owned Enterprises, the principle of *lex specialis derogat legi generali* applies. This is because the State-Owned Enterprises Law and the Company Law are of equal hierarchical standing; therefore, when the focus is on SOEs, the more specific regulation takes precedence and overrides the general one. However, to the extent that a matter is not specifically regulated in the State-Owned Enterprises Law, the provisions of the Company Law remain applicable, given that the legal form of SOEs continues to be subject to the principles and provisions governing limited liability companies.

Referring to SOEs, in line with the regulations, when examining the SOE environment itself, the mechanism for implementing good corporate governance principles is regulated in depth in technical terms. This is contained in Article 1 point 23 of MoSOE Regulation 2/2023, which explains that good corporate governance principles are methods or guidelines that must be implemented to manage a company, covering five principles. These five principles play a central role in ensuring the sustainability and risk management of the company. Based on Article 3 paragraph (2) of MoSOE Regulation 2/2023, the five principles can be described as follows:

1. Transparency, which refers to openness in providing both material information and decision-making processes related to the company. Such openness does not, however, diminish the company's obligation to protect the confidentiality of its business affairs.
2. Accountability, which emphasizes responsibility and clarity of functions within the company's organizational structure, aiming to ensure the effectiveness of corporate management.



3. Responsibility, which refers to managing the company in accordance with applicable laws and regulations to ensure long-term business sustainability and to foster a healthy corporate environment.
4. Independency, referring to activities in which the company's organs operate without interference from any party and are managed professionally to ensure that corporate decisions are made objectively and free from conflicts of interest.
5. Fairness, which emphasizes the company's commitment to equality in conducting its business by fulfilling the rights of all stakeholders in accordance with the agreements recognized by company management and the applicable laws and regulations.

Thus, in this case, the purpose of applying this principle is to optimize state-owned enterprises so that they can compete nationally and internationally and are able to maintain their businesses with a focus on sustainability, as intended and aimed at in Article 3 paragraph (4) of MoSOE Regulation 2/2023.

Focusing on the existence of SOE subsidiaries, it is regulated in Article 1 number 2 of the 2025 SOE Law and Article 1 number 36 of MoSOE Regulation 2/2023, which structurally in those regulations explains that SOE subsidiaries are SOE subsidiaries including their derivatives that are under the parent company. The parent company in question is an SOE or a company under the auspices of an SOE whose establishment is intended to fulfill the business interests of the SOE itself. In addition, the relationship between the parent and SOE subsidiary is legally bound because more than 50% of the subsidiary's shares are owned by the SOE or a company under the auspices of the SOE. In this case, it is relevant if it is concluded that the legal relationship is established due to the interconnection between the shareholder and the company's management. The shareholder in question is the parent company, and the company management in question is the SOE subsidiary. Therefore, the effectiveness of such a relationship must be based on corporate governance that is optimally integrated. The purpose is to realize the initial ideals of the establishment of the SOE.

The application of GCG principles to SOE subsidiaries constitutes a form of control mechanism by the parent company. In addition to guidance, the monitoring function is given to the parent company as the shareholder to ensure that corporate governance is carried out with optimal standardization, in accordance with Article 51 paragraph (3) of MoSOE Regulation 2/2023. This is done to maintain a more efficient, integrity-driven, and sustainable relationship between the parent and SOE subsidiary in conducting its business. Theoretically, the application of GCG principles in MoSOE Regulation 2/2023 has the potential to create a slight gap in the guidance function due to intervention from the parent company. However, with the principles of independence and transparency in GCG, the SOE subsidiary still obtains its managerial autonomy rights as long as it does not deviate from the policy direction that has been set in the parent company, in accordance with Article 3 paragraph (2) of MoSOE Regulation 2/2023. Based on this, the regulation regarding GCG principles is not merely a policy in management alone, but also to ensure that the company can maintain its existence. If there are problems in company management, with optimal GCG application, the company can still remain oriented toward sustainability, at the very least created through the implementation of clarity of duties, authorities, and responsibilities, completeness as well as the practice of committee duties in operating internal control functions, implementation of compliance from internal to external audits, corporate risk management, guidelines related to conflicts of interest, openness to financial and non-financial status, and ethical behavior guidelines in the company as referred to in Article 3 paragraph (3) of MoSOE Regulation 2/2023. Thus, GCG not only becomes a formal guideline but also an instrument to maintain the balance between shareholder control and company independence.

In the matter of strengthening corporate governance, it is further emphasized by the presence of the 2025 SOE Law, which provides for the establishment of Danantara. This body introduces reforms in SOE oversight, making it more structured. This aims to reinforce the principles of accountability and responsibility in managing state assets professionally [9]. The GCG principles in the 2025 SOE Law are regulated in Article 1A paragraphs (1) letter f and (2), which explain that good corporate governance principles encompass transparency, accountability, responsibility, independence, and fairness, which are the same as those regulated in Minister of SOE Regulation No. 2/2025. Then, based on Article 2 paragraph (3) in conjunction with Article 3B of the SOE Law, it is explained that the state holds Series A Dwiwarna shares with 1% ownership and its special rights as the regulatory body that guides, supervises, and sets policies in the implementation of SOE management, whereas the role of the body in question, namely Danantara, holds 99% of Series B shares with the authority to form investment and operational parent companies that function to manage SOE companies. This change provides for the separation of ownership functions and SOE operational functions while simultaneously strengthening oversight of corporate governance

Furthermore, Article 3F(2) of the 2025 SOE Law regulates the strengthening of risk management and internal controls in companies as a strategic policy, implemented through, inter alia, Danantara. This provision defines Danantara's role as the state asset manager that consolidates SOE guidance into a single entity—namely, Danantara itself—thereby enhancing oversight and optimization of investments and operations. This approach marks a departure from the prior SOE Law (Law No. 19 of 2003), which depended on a supervisory framework involving ministries and commissioners; the updated model introduces greater systematic rigor through Danantara's direct involvement. By centralizing regulatory and supervisory functions under Danantara, accountability in performance evaluations is bolstered, as it enables comprehensive management of SOE companies and their subsidiaries, aligned with Article 3AL of the 2025 SOE Law, which delineates its authorities. Moreover, this framework ensures clarity and consistency for subsidiaries, allowing their risk management and governance practices to align with Danantara's macro-level policies; such alignment is grounded in Article 62N of the 2025 SOE Law, which stipulates that the formation of SOE subsidiaries must be predicated on the work plans of Danantara and the relevant SOEs.

From a normative perspective, although MoSOE Regulation 2/2023 still technically regulates GCG directly, with the presence of the 2025 SOE Law, subsidiaries must align the implementation of GCG and risk management with Danantara's strategic policies. This means that the space for managerial autonomy of subsidiaries remains recognized through the principle of independence, but it is directed within strategic boundaries set by Danantara. This adjustment is important considering that Danantara also holds control over the formation of investment and operational holding companies, so the standards set will flow throughout the entire SOE chain. The risk management policy in the 2025 SOE Law shifts its position to become a macro-level state supervisory instrument, not merely an internal operational mechanism of the company. If MoSOE Regulation 2/2023 emphasizes technical methodologies such as internal control, audit, and risk assessment, the 2025 SOE Law positions risk management as a tool for aligning company direction with national fiscal interests and the sustainability of state assets. Thus, risks occurring in subsidiaries are no longer viewed merely as corporate issues, but as part of the state's portfolio risk that must be detected and mitigated through Danantara's policies.

Nevertheless, technically, MoSOE Regulation 2/2023 remains the direct procedural and operational guideline for both parent and subsidiary companies. This regulation is what directly serves as the mandatory guideline for subsidiaries in running their companies. The emphasis on obligations regarding risk management is essentially aimed at preserving company value, as stipulated in Article 46 paragraph (1) of MoSOE Regulation 2/2023. In the case of SOEs and their subsidiaries, having a GCG system capable of detecting and mitigating financial risks constitutes part of risk management in accordance with Article 52 of MoSOE Regulation 2/2023. This regulation represents a form of corporate responsibility to avoid losses that could affect dividend payments to the state. The presence of the 2025 SOE Law essentially does not conflict with MoSOE Regulation 2/2023 because, in corporate governance and risk management, both share aligned objectives for the sustainability of the company. Thus, the existence of the 2025 SOE Law does not replace MoSOE Regulation 2/2023; rather, it provides firmness on the importance of integrated GCG standards down to the subsidiary level. In conclusion, the two complement each other but are not on equal levels. Furthermore, in the context of SOE subsidiaries, normatively they are also obliged to align governance and risk management policies with the standards set by the parent company as referred to in Article 51 paragraph (3) of MoSOE Regulation 2/2023. This is intended to avoid conflicts of interest and ensure that subsidiary management remains aligned with its parent sector.

One example of the parent-subsidiary relationship in SOEs can be seen in INAF and IGM. These companies have a strong legal relationship because all of IGM's shares are owned by its parent company, namely INAF. However, this does not automatically grant INAF full control over IGM due to the principle of independence, which emphasizes that the company must not be operated under the influence of any party. In this case, if the GCG principles are effectively implemented in the parent-subsidiary relationship of SOEs, IGM will independently retain full control over the company. However, with the note that IGM still falls within the scope of fulfilling INAF's interests and does not deviate from the parent's provisions. Therefore, the effectiveness of applying these GCG principles is very important because its impact will be highly beneficial for economic stability and company sustainability. Through applicable legal regulations, essentially the GCG principles do not merely function as guidelines but also aim to direct companies to remain oriented toward good risk management. In addition, GCG principles can also ensure accountability and independence of SOE subsidiaries. Effective implementation of GCG principles in the parent-subsidiary relationship of SOEs can ensure that the company operates professionally, transparently, and free from conflicts of interest. This is also part of the state's strategic objectives in the economic sector through SOEs

## **B. The Suboptimal Implementation of Good Corporate Governance Principles and Its Impact on the Potential Bankruptcy of State-Owned Enterprise Subsidiaries During the Debt Payment Suspension Process**

Based on the governance principles stipulated in the MoSOE Regulation 2/2023, the implementation of GCG in practice remains suboptimal across several state-owned enterprise subsidiaries. This condition is evident in the bankruptcy case of IGM, which reflects the weak application of GCG principles. The ineffective implementation of GCG poses a significant risk of bankruptcy, indicating that the company lacks an optimal risk management framework [2]. This statement is further supported by Sigit Pramono, Chairman of the Indonesian Institute for Corporate Directorship (IICD), who emphasized that the application of GCG principles within a company is crucial, as effective implementation can serve as a safeguard during times of crisis. The crisis in question refers to the wave of bankruptcies experienced by several companies in Indonesia during the 1998 economic downturn [10], which was largely attributed to the weak enforcement of GCG principles [11].

This is closely related to historical circumstances showing that Indonesia was first introduced to the concept of GCG in the same year, 1998, and has since continued to develop and apply these principles up to the present day [12]. Referring to bankruptcy itself, a company (debtor) may be declared bankrupt if it fails to pay debts to two or more creditors and is unable to settle at least one debt that has fallen due. In this context, bankruptcy serves as a legal remedy of last resort, reflecting a company's financial incapacity to meet its debt obligations. It represents the final form of accountability, whereby the company's assets are liquidated under general confiscation as stipulated in Article 1 paragraph (1) of the Bankruptcy and Suspension of Debt Payment Obligations Law [13].

The bankruptcy of IGM occurred as a result of the creditors' rejection of the proposed settlement plan. As previously explained, a petition for Suspension of Debt Payment Obligations had been filed by the creditors and was granted on May 30, 2024, placing IGM under temporary Suspension of Debt Payment Obligations status. After 44 days, as determined by the court, on July 12, 2024, IGM's status was changed to permanent Suspension of Debt Payment Obligations. This Permanent Suspension of Debt Payment Obligations status lasted for an extended period with several extensions granted. Ultimately, on February 5, 2025, the supervisory judge appointed in the case received IGM's Final Report, which contained the creditors'

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rejection of the proposed settlement plan. The voting on the settlement proposal took place on February 3, 2025, forming the basis of the rejection. The voting results showed that 12 out of 13 secured creditors present (67.82%) voted against the proposal, while 12 out of 41 concurrent creditors present also rejected it, representing 22.10%. In this regard, pursuant to Article 281 paragraph (1), since the requirements for a settlement were not fulfilled, and in accordance with the provisions of Article 289 of the Bankruptcy and Suspension of Debt Payment Obligations Law, the supervisory judge notified the court and declared that the debtor, IGM, must be declared bankrupt along with all legal consequences as stipulated under the applicable laws and regulations.

Based on the bankruptcy proceedings of IGM through the petition for Suspension of Debt Payment Obligations, the rejection of the settlement proposal was clearly triggered by the company's financial difficulties, which stemmed from non-transparent management as a result of the weak implementation of GCG [14]. Meanwhile, from a theoretical perspective, there are regulations that explicitly govern the mechanism for implementing GCG principles, which are particularly directed toward State-Owned Enterprises. Bankruptcy during the Suspension of Debt Payment Obligations period should, in principle, be avoided, as Suspension of Debt Payment Obligations serves as an instrument that provides companies with the opportunity to protect themselves from creditor claims during the debt restructuring process. The Suspension of Debt Payment Obligations decision is also based on the acknowledgment of the company's financial difficulties and the need to grant the debtor sufficient time to formulate an effective settlement plan.

In the case of the state-owned enterprise subsidiary, namely IGM, it was found that the company had previously experienced recurring instances of fraud, which resulted in significant financial losses. According to the consolidated financial statements dated December 31, 2024, there were ten (10) fraudulent acts identified within the company, including [3]:

1. The subsidiary incurred losses amounting to IDR 157.33 billion, originating from activities within the FMCG Business Unit, including the receipt of tax refunds for the 2020 and 2021 periods.
2. Signs of losses at IGM amounting to IDR 35.07 billion emerged as a result of the deposit and withdrawal of funds, along with their returns, made under an individual's name at Koperasi Nusantara.
3. Potential losses of IDR 38.06 billion at IGM were linked to the pledging of deposits, including interest, conducted at Bank Oke Indonesia Tbk.
4. IGM incurred a loss of approximately IDR 18 billion due to the return of advance payments from PT MMU, which were not transferred to the company's account.
5. The disbursement of funds and the incurrence of expenses without valid transactional evidence led to suspected losses at IGM amounting to IDR 24.35 billion.
6. The collaboration for the distribution of TeleCTG medical devices with PT ZTI, conducted without adequate preparation, posed a potential loss to IGM amounting to IDR 4.50 billion due to payments exceeding the invoiced amount, in addition to a potential loss of IDR 10.43 billion from unsold TeleCTG inventory.
7. A loan obtained through a fintech platform that was not utilized for corporate purposes indicated a potential loss to IGM amounting to IDR 1.26 billion.
8. The production and distribution of masks without a proper strategy and with indications of fraud resulted in losses for IGM amounting to IDR 2.67 billion due to stock purchases, along with an additional potential loss of IDR 60.1 billion from uncollectible receivables from PT P and IDR 13.11 billion from remaining mask inventory.
9. The purchase and sale activities of Panbio Rapid Tests by PT IGM, carried out without a well-planned strategy and with indications of fraud, have the potential to cause losses of up to IDR 56.70 billion due to bad debts owed by PT P.
10. The PCR Kit Covid-19 transactions conducted by PT INAF during 2020–2021, carried out without sufficient preparation and with indications of fraud, resulted in potential losses of IDR 5.98 billion from uncollectible receivables owed by PT P and IDR 9.17 billion due to expired and unsold PCR Kit stock.

These indications of fraud are particularly relevant when linked to the principles of GCG specifically reflecting weak transparency within the company as stipulated in MoSOE Regulation 2/2023.

Although this SOE Ministerial Regulation strictly governs GCG, there remains a normative weakness in the structural framework governing the relationship between the parent company and its subsidiary in this case. INAF, as the shareholder, is subject to limitations on its ability to intervene in the subsidiary (without violating the principle of independence). This gap results in ineffective parent-company oversight in controlling fraud and risks at the subsidiary level, thereby creating an accountability grey zone. This situation is further exacerbated by internal governance deficiencies within IGM, where the existence of ten indications of fraud clearly reflects the failure of internal control functions, particularly in financial and operational management. The principle of transparency was breached through unclear cash-flow movements, and accountability failed to ensure that corporate organs were held responsible for the resulting losses [15].

Fundamentally, the governance failure at IGM also constitutes a violation of the fiduciary duty of the company's organs as mandated in Article 97 paragraph (2) of the Company Law, which stipulates that directors must perform their duties in good

faith and with full responsibility. Furthermore, GCG principles also regulate accountability in managing the company. This violation can be seen in business decisions taken without adequate planning. In practice, IGM also failed to implement GCG principles optimally due to the absence of corporate risk management as regulated in Article 3 paragraph (3) of MoSOE Regulation 2/2023. Moreover, the role of the board of commissioners as the company's supervisory organ, as governed by Article 108 paragraph (1) of the Company Law, has been negligent in carrying out its duties due to decisions by the board of directors that caused losses to the company. At this stage, the Directors and Commissioners of IGM have violated the duty of care. There was also negative cash flow that harmed the company and unclear cash flows that risked the existence of interests outside the company. This leads to a lack of clarity in the function of implementation and accountability of the company's organs, thereby violating the GCG principle of accountability. This problem reflects a breach of the duty of loyalty as referred to in Article 92 paragraph (1) of the Company Law, which states that directors must perform their duties solely in the interest of the company, and Article 108 paragraph (2), which explains that commissioners, in providing advice to directors, must also consider the interests of the company. Evidence of this breach of fiduciary duty raises issues regarding the liability of corporate organs, where failure in supervision by the commissioners and failure in management by the directors can be subject to legal action, especially if the loss is considered a state financial loss. If the principle of accountability in GCG and the Company Law is applied, personal liability can be imposed on the organs (if proven to have violated regulations) as regulated in the Company Law.[16]

These fundamental problems became the root cause of the financial difficulties in fulfilling IGM's responsibilities as a debtor in this case. The event of debt default and the failure to implement GCG principles are sufficient to explain that IGM itself was unable to fulfill its responsibilities under the law and sound corporate principles. Therefore, referring to IGM's conduct as a State-Owned Enterprises subsidiary during the Suspension of Debt Payment Obligations process, IGM failed to meet the requirements of Article 3 paragraph (3) of MoSOE Regulation 2/2023 regarding transparency in financial and non-financial reporting properly while conducting company operations. The weak implementation of GCG principles in the Suspension of Debt Payment Obligations process had a fatal impact on the company because it increased the potential for strategic business errors. This is evidenced by the fraud at IGM, which was further exacerbated by the absence of effective risk management, thereby affecting the company's finances and ultimately ending in bankruptcy. Furthermore, the bankruptcy that occurred at IGM not only harmed creditors but also resulted in state financial losses because INAF, as the majority shareholder, had to bear the losses recorded in its books. In this context, the analysis of the responsibility of directors and commissioners needs to be expanded into the realm of corporate criminal law, because if fraud in a State-Owned Enterprises is deemed to cause state financial loss, it creates layered liability for the company.

This statement can be illustrated by comparing a similar legal issue faced by PT GI, another state-owned enterprise. Unlike IGM, PT GI ultimately did not experience bankruptcy because the compromise proposal it submitted as the debtor was accepted by its creditors. It should be noted that PT GI operates directly under State-Owned Enterprises, giving it a higher potential for government intervention compared to IGM, which functions only as a subsidiary of INAF, the parent state-owned enterprise. However, the cases can be compared because the success of the compromise plan was closely tied to the implementation of GCG principles within the company. During the Suspension of Debt Payment Obligations period, PT GI effectively optimized the application of GCG principles throughout the organization, particularly through transparency, which helped build and maintain trust among its creditors [17]. The most significant difference can be observed in the management of financial risk within the company's obligations. The Suspension of Debt Payment Obligations extension request was submitted directly by the debtor as a form of accountability, demonstrating readiness to implement a compromise plan through negotiation and debt restructuring that ensures fairness between the debtor and creditors. PT GI rescue was also considered vital to the nation, which justified efforts to save the company.

The fraud committed within IGM was further aggravated by the absence of an effective risk-management system, which ultimately impacted the company's financial condition and resulted in bankruptcy. The insolvency of IGM not only caused losses to its creditors but also led to financial losses for the State, as INAF, the majority shareholder, was compelled to absorb the losses in its financial statements. In this context, the analysis of the liability of directors and commissioners must extend into the realm of corporate criminal law, because if fraud within an SOE is deemed to cause State financial losses, it triggers layered liabilities for the corporation. A similar case also occurred with PT GI as an SOE; however, unlike IGM, the company succeeded in avoiding bankruptcy. This was due to the fact that the composition plan submitted by PT GI as the debtor was accepted by its creditors.

Thus, the implementation of GCG principles becomes a distinguishing factor between the two companies. Both share similarities in facing financial difficulties and corporate governance challenges, which necessitated undergoing the Suspension of Debt Payment Obligations process. However, PT GI ultimately managed to survive, largely due to the government's role in strengthening transparency and accountability principles within the company [17]. In contrast, IGM had to be declared bankrupt due to inconsistent management in implementing GCG principles. In addition, weak oversight from the parent company and the absence of government intervention or rescue policies were unavoidable factors contributing to the bankruptcy.

Therefore, the regulation of these principles represents both a challenge and an opportunity. If State-Owned Enterprises companies act accurately and swiftly in their efforts to sustain operations, they can build and maintain corporate sustainability while maximizing high-quality performance [7]. This aims to create a corporate climate that is honest, competent, and solid within State-Owned Enterprises companies. Based on the above, it can be concluded that the suboptimal implementation of GCG principles—particularly in the aspects of transparency, accountability, and risk management—serves as a dominant factor triggering the bankruptcy of State-Owned Enterprises subsidiaries such as IGM. This contrasts with State-Owned Enterprises companies like Garuda Indonesia, which successfully maintained business continuity through effective GCG implementation

## Conclusion

The regulation of GCG principles for subsidiaries of State-Owned Enterprises as stipulated in MoSOE Regulation 2/2023 has, from a legal standpoint, provided clear guidance regarding the implementation of the five GCG principles, namely transparency, accountability, independence, responsibility, and fairness in corporate management. However, in practice, such implementation has not yet been optimal. This is reflected in the bankruptcy case of IGM, which demonstrates the weakness of supervisory functions in the relationship between the parent company and its subsidiary, as well as deficiencies in the subsidiary's own risk management. This underscores that failure in corporate governance and ineffective application of GCG principles may lead to and increase the risk of bankruptcy. Therefore, the effectiveness of GCG implementation plays a crucial role in maintaining the stability and sustainability of State-Owned Enterprise subsidiaries.

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