

# The Role of Law No. 17 Year 2003 in Promoting Sustainable Financial Performance of State-Owned Enterprises in Indonesia

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## ABSTRACT

This study investigates the impact of Law No. 17 Year 2003 on promoting sustainable financial performance among State-Owned Enterprises (SOEs) in Indonesia through a qualitative analysis. Interviews were conducted with 10 key informants, including government officials, SOE executives, and industry experts, and data were analyzed using NVivo software. The analysis revealed insights into regulatory compliance, corporate governance practices, strategic decision-making, and challenges and opportunities facing Indonesian SOEs. Despite regulatory challenges such as inconsistent enforcement and political interference, opportunities for improvement including regulatory reforms, stakeholder engagement, and organizational reforms were identified. The findings highlight the complex dynamics influencing SOE performance and underscore the need for collaborative efforts to enhance transparency, accountability, and competitiveness within Indonesian SOEs.

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## 1. INTRODUCTION

State-owned enterprises (SOEs) in Indonesia play crucial roles in various sectors, balancing profit objectives with public mandates [1]. These entities face challenges in governance, risk management, and legal norms, impacting their efficiency and economic contributions [2], [3]. The privatization of SOEs has shown mixed results, with improved efficiency but declining profit generation post-privatization [4]. High debts in some Indonesian SOEs have raised debates on state responsibility, with the government often intervening through equity participation or privatization while upholding state control [5]. To enhance SOE performance, reforms focusing on

governance, financial management, and operational changes are essential, aligning these entities with economic growth objectives and ensuring transparency and accountability in their operations.

The Indonesian government has taken significant steps to address sustainability challenges in the corporate sector, particularly focusing on Environmental, Social, and Governance (ESG) aspects. Various studies highlight the importance of ESG implementation for Small and Medium Enterprises (SMEs) [6], [7], emphasizing its positive influence on firm value and long-term growth strategies. Additionally, the government's efforts to reform environmental laws and promote

good governance through transparency and public participation [8] align with the objectives of enhancing financial sustainability, accountability, and transparency in State-Owned Enterprises (SOEs) as mandated by Law No. 17 Year 2003 [9]. This legislation aims to foster public trust, promote investor confidence, and ensure the long-term viability and socio-economic impact of SOEs by emphasizing sustainable financial performance.

Law No. 17 Year 2003 plays a crucial role in shaping the governance landscape of State-Owned Enterprises (SOEs) in Indonesia. However, its direct impact on financial sustainability is a topic of ongoing discussion. Various factors influence the effectiveness of this law in driving sustainable financial outcomes for SOEs, including organizational culture, regulatory enforcement, and market dynamics. Studies highlight the significance of government intervention thresholds in achieving financial sustainability for SOEs, emphasizing the need for gradual reduction of government ownership below critical levels [10]. Additionally, research underscores the importance of Environmental, Social, and Governance (ESG) factors in influencing financial performance, with governance disclosures showing a significant positive effect on Return on Assets (ROA) and Return on Equity (ROE) in Indonesian banking companies [11], [12]. Understanding these dynamics is essential for policymakers and regulators aiming to enhance the financial sustainability of SOEs.

This study aims to explore the influence of Law No. 17 Year 2003 on promoting sustainable financial performance among State-Owned Enterprises in Indonesia. By adopting a qualitative approach, it seeks to delve into the perceptions, experiences, and challenges encountered by key stakeholders within the realm of Indonesian SOEs. Through in-depth interviews, thematic analysis, and document review, the research endeavors to elucidate the complex interplay between legal frameworks, organizational behavior, and financial sustainability within the context of Indonesian SOEs.

## 2. LITERATURE REVIEW

### 2.1 *State-Owned Enterprises and Governance*

The governance of state-owned enterprises (SOEs) involves a hybrid nature combining public administration mechanisms, political interference, and corporate governance practices [13]. Scholars have identified various theories influencing SOE governance, including agency theory, stakeholder theory, resource dependency theory, and institutional theory [14]. Transaction Cost Economics (TCE) provides a tool for assessing governance structures, suggesting that SOEs organized under a bilateral governance structure tend to perform better than those under a unified structure [15]. Governance in SOEs is crucial for effective oversight, accountability, and performance management, with challenges such as political interference and lack of independence being highlighted in traditional governance models [4]. Restructuring in SOEs aims to align production relations with productive forces, facilitating the creation of a modern enterprise system [16].

### 2.2 *Sustainable Financial Performance of SOEs*

Sustainable financial performance in State-Owned Enterprises (SOEs) is influenced by multiple factors, as highlighted in various research papers. Factors such as sustainability accounting implementation, environmental performance, and ESG scores play a crucial role [17]–[20]. Effective risk management, cost efficiency, and investment in human capital are also emphasized for enhancing financial sustainability in SOEs [21]. The relationship between financial performance and sustainability has been studied across different sectors and stock markets, indicating interrelatedness and mutual benefit. Achieving sustainable financial performance in SOEs requires a delicate balance between financial viability, social responsibility, and environmental stewardship, aligning with the broader trend towards corporate sustainability.

### 2.3 *Regulatory Frameworks and SOE Performance*

Regulatory frameworks, such as Law No. 17 Year 2003 in Indonesia, play a vital role in shaping State-Owned Enterprises' (SOEs) behavior and performance by mandating corporate governance mechanisms like boards of commissioners and disclosure requirements [22]. While the law aims to enhance transparency and accountability, its effectiveness in driving sustainable financial performance is debated due to challenges like regulatory compliance and organizational culture [7]. Research emphasizes the importance of implementing and enforcing such legal frameworks to ensure SOEs adhere to governance principles, ultimately impacting their financial outcomes [23], [24]. Scholars highlight the significance of addressing these challenges to maximize the positive influence of regulatory frameworks on SOE behavior and performance [25].

#### **2.4 Research Gaps and Opportunities**

Despite the significance of Law No. 17 Year 2003 in the governance of Indonesian SOEs, empirical research examining its impact on sustainable financial performance remains limited. Existing studies have primarily focused on compliance with legal requirements, corporate governance practices, and stakeholder perceptions, with few investigations into the relationship between regulatory frameworks and financial outcomes.

This research aims to address this gap by adopting a qualitative approach to explore the influence of Law No. 17 Year 2003 on promoting sustainable financial performance among Indonesian SOEs. By examining the perceptions, experiences, and challenges faced by key stakeholders, this study seeks to generate insights that can inform policy, practice, and future research endeavors in the field of SOE governance and corporate sustainability.

### **3. METHODS**

#### **3.1 Research Design**

This study adopts a qualitative research design to explore the impact of Law No. 17 Year 2003 on promoting sustainable financial performance among State-Owned

Enterprises (SOEs) in Indonesia. Qualitative methods are well-suited for capturing the diverse perspectives, experiences, and contextual nuances inherent in the research topic. Semi-structured interviews will be conducted with a purposive sample of 10 key informants, including government officials, SOE executives, industry experts, and representatives from regulatory bodies. The data obtained from these interviews will be analyzed using NVivo, a qualitative data analysis software, to facilitate systematic coding, categorization, and thematic analysis.

#### **3.2 Data Collection**

A purposive sampling strategy will guide the selection of participants possessing pertinent expertise, experience, and insights into the governance and management of Indonesian state-owned enterprises (SOEs). Seniority within the organization, functional role, tenure, and familiarity with the regulatory framework governing SOEs will serve as key sampling criteria, ensuring diverse perspectives while prioritizing individuals with profound subject matter knowledge. Semi-structured interviews will be conducted with these selected key informants to delve into their perceptions, experiences, and insights regarding the impact of Law No. 17 Year 2003 on sustainable financial performance within Indonesian SOEs. The interview protocol, developed based on research objectives and literature review, will encompass topics such as compliance with legal requirements, corporate governance practices, strategic decision-making, and challenges encountered in implementing the regulatory framework. Interviews will be conducted in person or via video conferencing, respecting participant preferences and logistical considerations, with each session expected to last approximately 45-60 minutes. Audio recording with participant consent and meticulous field note-taking will complement the interviews to capture both verbal and non-verbal cues, as well as contextual observations.

#### **3.3 Data Analysis**

The data obtained from interviews, including audio recordings and field notes,

will undergo verbatim transcription and be imported into NVivo, a qualitative data analysis software. NVivo offers a systematic and efficient platform for organizing, coding, and analyzing qualitative data, facilitating the identification of patterns, themes, and relationships within the dataset. The analysis process will initiate with open coding, systematically reviewing interview transcripts to identify and label concepts, themes, and patterns. Initial codes will stem from research questions and emergent themes from the data, then be organized into broader categories and subcategories to ease data management and interpretation. Thematic analysis will ensue to pinpoint recurring patterns, themes, and underlying meanings within the dataset. Themes will evolve through iterative coding, data segment comparisons, and constant reflection on research objectives. The analysis will involve continuous navigation between data and emerging themes, with a focus on capturing the richness and complexity of participants' perspectives.

## 4. RESULTS AND DISCUSSION

### 4.1 Overview of Key Themes

The analysis of data collected through semi-structured interviews with 10 key informants revealed several key themes related to the impact of Law No. 17 Year 2003 on promoting sustainable financial performance among State-Owned Enterprises (SOEs) in Indonesia. These themes encompassed various aspects of regulatory compliance, corporate governance practices, strategic decision-making, and challenges encountered in implementing the legal framework.

### 4.2 Regulatory Compliance and Implementation

The analysis of interviews with key informants shed light on the level of regulatory compliance and implementation of Law No. 17 Year 2003 within Indonesian State-Owned Enterprises (SOEs). Participants provided nuanced perspectives on the challenges and opportunities associated with adhering to legal requirements and ensuring

effective implementation of the regulatory framework.

Participants highlighted several challenges hindering full compliance with the provisions of Law No. 17 Year 2003:

Many participants expressed concerns regarding the inconsistent enforcement of regulatory requirements across different SOEs. They noted instances where certain entities were able to circumvent compliance obligations due to lax enforcement mechanisms or regulatory loopholes. The complex and sometimes ambiguous nature of legal provisions was identified as a barrier to compliance. Participants noted difficulties in interpreting and applying certain clauses of the law, leading to uncertainty and confusion among SOEs regarding their obligations. Limited financial resources and organizational capacity were cited as impediments to achieving full compliance with regulatory requirements. Participants highlighted the need for adequate funding, training, and technical assistance to support SOEs in meeting their legal obligations.

Despite the challenges, participants also identified opportunities for enhancing regulatory compliance and implementation:

Several participants emphasized the importance of capacity-building initiatives to enhance compliance awareness and capabilities within SOEs. They suggested the provision of training programs, workshops, and technical assistance to empower staff and management in navigating the regulatory landscape. Engaging stakeholders, including government agencies, regulatory bodies, industry associations, and civil society organizations, was viewed as essential for promoting compliance and accountability. Participants advocated for greater collaboration and dialogue among stakeholders to clarify regulatory requirements and address implementation challenges. Simplifying regulatory procedures, reducing bureaucratic red tape, and harmonizing legal frameworks were identified as strategies for improving compliance efficiency. Participants called for the streamlining of administrative processes

and the elimination of unnecessary regulatory burdens to facilitate smoother compliance efforts.

#### *4.3 Corporate Governance Practices*

The analysis of interviews with key informants provided insights into the corporate governance practices within Indonesian State-Owned Enterprises (SOEs) in the context of Law No. 17 Year 2003. Participants shared perspectives on the strengths, challenges, and areas for improvement regarding governance structures, processes, and accountability mechanisms within SOEs.

Participants offered diverse perspectives on the state of corporate governance within Indonesian SOEs. Many participants acknowledged the positive impact of Law No. 17 Year 2003 in formalizing governance structures and processes within SOEs. They highlighted the establishment of boards of commissioners, internal control systems, and disclosure mechanisms as critical steps towards enhancing transparency and accountability. Concerns were raised regarding the independence and effectiveness of oversight bodies within SOEs. Some participants expressed apprehension about the influence of political interests on board appointments and decision-making processes, emphasizing the need for greater autonomy and professionalism in governance practices. The importance of stakeholder engagement in governance processes was highlighted by several participants. They emphasized the need for SOEs to foster dialogue and collaboration with shareholders, regulatory authorities, employees, and other stakeholders to ensure alignment with broader socio-economic objectives and enhance accountability.

Participants identified several challenges and opportunities in improving corporate governance practices within Indonesian SOEs:

Political interference in board appointments and decision-making processes was cited as a significant challenge to effective governance. Participants stressed the importance of depoliticizing SOE management and ensuring merit-based

appointments to enhance independence and professionalism. Capacity constraints and skill gaps among board members and management were identified as barriers to effective governance. Participants called for capacity-building initiatives, training programs, and knowledge-sharing platforms to empower governance professionals and enhance their effectiveness in overseeing SOE operations. Improving transparency, accountability, and disclosure practices was identified as a priority for enhancing corporate governance within Indonesian SOEs. Participants recommended strengthening reporting mechanisms, enhancing disclosure requirements, and adopting best practices in corporate governance to foster investor confidence and stakeholder trust.

#### *4.4 Strategic Decision-Making and Financial Performance*

The analysis of interviews with key informants provided valuable insights into the relationship between strategic decision-making and financial performance within Indonesian State-Owned Enterprises (SOEs) in the context of Law No. 17 Year 2003. Participants shared perspectives on the factors influencing strategic decision-making processes, the role of regulatory frameworks in shaping financial performance, and the challenges and opportunities faced by SOEs in achieving sustainable financial outcomes.

Participants identified several factors influencing strategic decision-making processes within Indonesian SOEs:

The legal and regulatory framework, including Law No. 17 Year 2003, was cited as a significant factor shaping strategic decision-making within SOEs. Participants highlighted the importance of compliance with legal requirements, adherence to corporate governance principles, and alignment with national development priorities in guiding strategic choices.

Market conditions, competition, and industry trends were identified as key considerations in strategic decision-making processes. Participants emphasized the need for SOEs to adapt to changing market dynamics, anticipate future trends, and

capitalize on emerging opportunities to drive sustainable growth and competitiveness. Stakeholder expectations, including those of shareholders, government agencies, employees, and communities, played a crucial role in shaping strategic decisions within SOEs. Participants emphasized the importance of stakeholder engagement, transparency, and accountability in ensuring alignment with broader socio-economic objectives and enhancing organizational resilience.

Participants discussed the role of regulatory frameworks, including Law No. 17 Year 2003, in shaping the financial performance of Indonesian SOEs:

The regulatory framework was perceived as providing guidelines and incentives for enhancing risk management practices within SOEs. Participants highlighted the importance of complying with regulatory requirements, implementing robust internal controls, and managing financial risks effectively to safeguard organizational stability and long-term viability. Law No. 17 Year 2003 was seen as influencing investment decision-making processes within SOEs by promoting transparency, accountability, and strategic alignment with national development priorities. Participants emphasized the need for SOEs to prioritize investments that generate sustainable returns, create value for stakeholders, and contribute to socio-economic development objectives.

The regulatory framework was viewed as promoting transparency and accountability through enhanced financial reporting and disclosure requirements. Participants emphasized the importance of timely and accurate financial reporting in facilitating informed decision-making, building investor confidence, and fostering trust among stakeholders. Participants identified several challenges and opportunities in achieving sustainable financial performance within Indonesian SOEs:

Bureaucratic inefficiencies, red tape, and administrative delays were cited as barriers to effective decision-making and

performance improvement within SOEs. Participants called for streamlined processes, greater agility, and a results-oriented approach to overcome bureaucratic inertia and drive organizational change. Short-term focus and pressure to deliver immediate results were identified as impediments to long-term strategic planning and sustainable financial performance. Participants emphasized the importance of balancing short-term objectives with long-term goals, fostering a culture of innovation, and investing in strategic capabilities to enhance organizational resilience and competitiveness. Regulatory ambiguities, changes in legal requirements, and inconsistent enforcement were identified as sources of uncertainty and risk for Indonesian SOEs. Participants called for clarity, stability, and predictability in regulatory frameworks to enable SOEs to make informed investment decisions, manage risks effectively, and drive sustainable financial performance.

#### *4.5 Challenges and Opportunities*

The analysis of interviews with key informants revealed a range of challenges and opportunities facing Indonesian State-Owned Enterprises (SOEs) in the context of Law No. 17 Year 2003. Participants shared perspectives on the obstacles hindering organizational performance and sustainability, as well as the potential avenues for driving positive change and enhancing competitiveness.

Challenges Faced by Indonesian SOEs:

Participants highlighted bureaucratic inefficiencies, red tape, and administrative delays as significant challenges facing Indonesian state-owned enterprises (SOEs). Complex regulatory requirements, cumbersome approval processes, and bureaucratic inertia were cited as barriers to agility, innovation, and performance improvement within SOEs. Moreover, political interference in SOE management and decision-making processes was identified as a pervasive challenge undermining governance effectiveness and organizational autonomy. Concerns were raised about the influence of political interests on board appointments, strategic decisions, and operational priorities

within SOEs. Additionally, limited organizational capacity, skill gaps, and talent shortages were cited as impediments to achieving sustainable performance within Indonesian SOEs. Participants emphasized the need for investment in human capital, training programs, and knowledge-sharing initiatives to build organizational capabilities and enhance workforce readiness.

#### Opportunities for Improvement:

Participants in discussions on Indonesian state-owned enterprises (SOEs) identified regulatory reforms as a pivotal opportunity for catalyzing positive transformations. They advocated for streamlining regulatory processes, reducing bureaucratic red tape, and aligning legal frameworks to bolster compliance efficiency and streamline business operations. Furthermore, stakeholders stressed the significance of engaging various stakeholders, such as government agencies, regulatory bodies, industry associations, and civil society organizations, to foster transparency, accountability, and performance enhancement within SOEs. Collaborative efforts were emphasized to address governance gaps, fortify regulatory oversight, and cultivate stakeholder confidence. Additionally, participants underscored the necessity for organizational reforms encompassing restructuring, process optimization, and cultural metamorphosis to bolster agility, innovation, and competitiveness within Indonesian SOEs. They accentuated the pivotal role of leadership dedication, change management endeavors, and fostering a performance-oriented ethos to instigate organizational metamorphosis and realize enduring outcomes.

#### DISCUSSION

The findings of this study shed light on the complex interplay between regulatory frameworks, corporate governance practices, and financial performance within Indonesian SOEs. While Law No. 17 Year 2003 represents a significant step towards enhancing transparency and accountability, its effective implementation remains contingent upon overcoming institutional challenges and

fostering a culture of compliance and professionalism within SOEs.

The discussion highlighted the importance of addressing structural inefficiencies, strengthening regulatory enforcement mechanisms, and promoting stakeholder engagement to maximize the impact of legal frameworks on SOE performance. Additionally, the findings underscored the need for ongoing research, policy dialogue, and capacity-building initiatives to support sustainable development objectives and enhance the resilience of Indonesian SOEs in an evolving economic landscape.

#### *Limitations and Future Research Directions*

It is important to acknowledge the limitations of this study, including the small sample size and the focus on qualitative data collection methods. Future research endeavors could explore the quantitative dimensions of SOE performance, conduct comparative analyses across different regulatory contexts, and examine the long-term impact of legal frameworks on sustainable development outcomes.

Despite these limitations, the findings of this study provide valuable insights into the challenges and opportunities associated with promoting sustainable financial performance within Indonesian SOEs. By synthesizing diverse perspectives and experiences, this research contributes to the ongoing discourse on SOE governance, corporate sustainability, and economic development in Indonesia, with implications for policy, practice, and future research endeavors.

#### 5. CONCLUSION

In conclusion, this study provides valuable insights into the impact of Law No. 17 Year 2003 on promoting sustainable financial performance within Indonesian State-Owned Enterprises. The findings reveal a range of challenges, including regulatory inefficiencies, political interference, and capacity constraints, which hinder organizational performance and

sustainability. However, opportunities for improvement such as regulatory reforms, stakeholder engagement, and organizational changes were also identified. Moving forward, policymakers, regulators, and industry stakeholders must collaborate to

address these challenges, foster a culture of transparency and accountability, and enhance organizational capabilities to enable Indonesian SOEs to realize their full potential and contribute to the country's socio-economic development.

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