

REVIEW ARTICLE

Multiple Owners, Divided Purposes: Governance and Performance of Regionally Owned Enterprises

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ABSTRACT

Regional governments own enterprises, and expect them to earn a return, deliver a public service and contribute to local revenue simultaneously. This study examines what the international evidence establishes about such enterprises, and what it does not, in order to specify what an Indonesian research programme would need to establish first. The method combines a structured review of research published between 2017 and 2024 with a targeted search of the Indonesian literature and an analysis of the principal structure these enterprises face. Four findings follow. Corporatisation is driven by administrative capacity and by fiscal position rather than by ideology, with grant dependence and debt predicting company creation and corporate leverage extending the owner government's borrowing capacity off balance sheet. Governance is structurally complicated by multiple principals, which produces free-riding on monitoring, duplicated oversight and lobbying, with increased agent autonomy as the outcome; board efficacy raises performance only indirectly, by relieving managerial role dilemmas. Performance evidence is genuinely divided: a systematic review finds these enterprises often more efficient than direct provision while cautioning that its conclusions are tentative, and a study of all 290 Swedish municipalities finds heavy reliance on them associated with more perceived corruption and higher taxes without better citizen satisfaction. Politicisation is measurable, with election-year hiring and post-election board turnover documented. The Indonesian evidence base, however, consists of small-sample provincial studies, and no verified national study of governance or performance exists.

Keywords: *municipally owned corporations; state-owned enterprises; corporate governance; hybrid organisations; local government*

ABSTRAK

Pemerintah daerah memiliki badan usaha dan mengharapkannya sekaligus menghasilkan laba, menyediakan layanan publik, serta menyumbang pendapatan asli daerah. Penelitian ini menelaah apa yang telah dibuktikan literatur internasional mengenai badan usaha semacam itu, dan apa yang belum, guna merinci hal-hal yang perlu lebih dulu dibangun oleh agenda riset di Indonesia. Metodenya memadukan telaah terstruktur riset terbitan 2017 hingga 2024 dengan penelusuran terarah atas literatur Indonesia serta analisis struktur prinsipal yang dihadapi badan usaha tersebut. Empat temuan mengikutinya. Korporatisasi didorong oleh kapasitas administratif dan posisi fiskal, bukan oleh ideologi, dengan ketergantungan pada transfer dan utang memprediksi pembentukan perusahaan serta leverage perusahaan memperluas kapasitas pinjaman pemerintah pemilik di luar neraca. Tata kelolanya rumit secara struktural karena banyaknya prinsipal, yang menimbulkan pembonceng dalam pengawasan, pengawasan berganda, dan pelobian, dengan akibat meningkatnya otonomi agen; efektivitas dewan meningkatkan kinerja hanya secara tidak langsung, melalui peredaan

dilema peran manajerial. Bukti kinerjanya benar-benar terbelah: satu telaah sistematis menemukan badan usaha ini kerap lebih efisien daripada penyediaan langsung sembari mengingatkan bahwa simpulannya tentatif, sedangkan studi atas seluruh 290 munisipalitas Swedia menemukan ketergantungan besar padanya berasosiasi dengan persepsi korupsi lebih tinggi dan pajak lebih besar tanpa kepuasan warga yang lebih baik. Politisasi pun terukur, dengan perekrutan tahun pemilu dan pergantian dewan pascapemilu yang terdokumentasi. Namun basis bukti Indonesia hanya berupa studi provinsi bersampel kecil, dan tidak ada studi nasional terverifikasi mengenai tata kelola atau kinerjanya.

Kata kunci: badan usaha milik daerah; badan usaha milik negara; tata kelola perusahaan; organisasi hibrida; pemerintah daerah

1. INTRODUCTION

A regional government that owns a company owns something awkward. The company is expected to behave commercially, since it holds capital and competes in a market. It is also expected to serve a public purpose, since that is why a government owns it rather than buying the service. And it is expected to remit a dividend, since regional budgets are short. These three expectations are not merely difficult to satisfy together; they conflict, and the conflict is designed in.

The form is not unusual. Municipal corporations are widespread and growing across Europe, with one review reporting that Germany's largest cities average around ninety municipal corporations each against a national average of about twenty, and that more than a thousand municipal private-law corporations operate across six Italian regions (Tavares, 2017, citing earlier work). Indonesian regional governments own enterprises across water supply, banking, markets, printing, construction materials and food distribution, and are periodically enjoined to make them profitable.

What distinguishes the Indonesian case is not the form but the evidence. A targeted search conducted for this study located no peer-reviewed national study of the governance or performance of these enterprises published between 2017 and 2024. What exists is a small number of provincial studies with samples of five or fewer entities, one single-case governance study, and a body of official statistics that is not academic literature. Arguments about whether these enterprises perform are therefore being made without a research base to make them from.

This study does not fill that gap, which requires data collection beyond a review. It does something prior and necessary: it establishes what the international evidence supports, what it explicitly leaves uncertain, and where the Indonesian record stands, so that an empirical programme can be specified against a known baseline rather than assembled ad hoc.

Three questions organise the analysis. First, why do governments create these enterprises, and what does that imply about what they are for? Second, what does the evidence establish about their governance and their performance, including where it is divided? Third, what does the Indonesian evidence base actually contain, and what would a research programme need to establish first?

2. LITERATURE REVIEW AND CONCEPTUAL FRAMEWORK

Why governments corporatise

Tavares (2017) revisits the determinants of adopting municipal corporations for local service delivery, observing that scholarship concentrates on their performance relative

to local bureaucracies while the drivers of adoption remain understudied, and grouping the determinants into service characteristics, institutional and regulatory settings, political constraints, and financial conditions. Andrews et al. (2022) frame the wider phenomenon, defining corporatisation and its organisational variants and synthesising what is known about governance, accountability and performance in arm's-length corporate forms.

Two studies supply the empirical answer, and they agree on what it is not. Andrews et al. (2020), modelling 150 major English local governments from 2010 to 2016, find that governments with higher grant dependence and higher debt are more involved in creating and operating companies, that larger authorities are more involved, and that company involvement concentrates in deprived areas. Bernier et al. (2022), using an original dataset of Canadian federal and provincial organisations, find corporatisation driven not principally by fiscal stress or right-wing ideology but by administrative capacity, concluding that it is a pragmatic state-building device rather than an instrument of new public management whose cost and complexity restrict it to larger administrative systems.

Bialek-Jaworska (2022) identifies a motive that is rarely stated openly. Merging Polish bank, municipal budget and corporate data, she finds that a municipally owned company's leverage extends the long-term debt capacity of its owner municipality through off-balance-sheet financing, allowing capital expenditure under fiscal rules that would otherwise constrain it. Szmigiel-Rawska et al. (2021), examining water supply, local transport and elderly care across Polish municipalities, find externalisation of delivery explained as officials minimising the sum of production and transaction costs subject to fiscal and political constraints.

Read together, these establish that the enterprise form is chosen for reasons that include, and sometimes are dominated by, the owner government's fiscal position rather than the service's requirements. That matters for evaluation: an entity created to relieve a borrowing constraint will not perform well against criteria assuming it was created to deliver a service efficiently.

The multiple principal problem

Voorn et al. (2019) extend principal-agent theory to the multiple-principal condition characteristic of jointly governed service delivery, identifying the mechanisms it generates: free-riding by owner governments on monitoring, duplication of monitoring effort, lobbying by individual principals, and consequently increased agent autonomy, with inefficiency as the outcome. They propose an interface solution positioning an elected unitary actor between the political and service-delivery layers.

Voorn and van Genugten (2022) test this qualitatively across six Dutch cases, documenting free-riding, duplication and lobbying in practice together with the coordination mechanisms deployed against them, and finding that local civil services perform much of the bridging work between owner municipalities. Consensus on stewardship principles emerges but is undermined by council interventions and unilateral owner actions. They flag a structural tension under public law in which an executive board is simultaneously principal and agent.

Krause et al. (2024), surveying German chief executives, examine the board itself and find that board efficacy does not raise performance directly but works indirectly by alleviating managerial role dilemmas, removing obstacles to performance rather than driving it. Board members' competence and cooperation are the two attributes their evidence supports acting on. The finding is important for policy because it implies that

board reform works by removing an impediment, so its benefit is bounded by how much of the performance problem is attributable to role conflict rather than to anything else.

Performance: a divided evidence base

Voorn et al. (2017), reviewing the literature from 2001 to 2015 systematically, find municipally owned corporations often more efficient than local bureaucracies in refuse collection, water distribution and transit, while also showing high initial failure rates, and they explicitly describe their conclusions as tentative given the thinness of the evidence base. That hedge is part of the finding and is reported here as such.

Voorn et al. (2020), surveying Dutch corporations, find that the performance predictors practitioners commonly expect have limited effect, and that what matters instead is organisational size, resource availability, and coordination among multiple owner governments. Their recommendation that future research centre on inter-municipal coordination rather than on classic principal-agent conflict indicates where the explanatory weight lies.

Bergh et al. (2022) provide the strongest counterweight. Examining all 290 Swedish municipalities with data extending back to the 1970s, they find that municipalities relying heavily on such corporations are associated with more perceived corruption and higher taxes, and not with more satisfied citizens or a better business climate. Any argument that corporatisation improves outcomes must engage this result, which covers a complete national population rather than a sample.

Hybridity and what gets measured

De Waele et al. (2021), reviewing 56 articles on performance measurement in hybrid public organisations, cluster performance around economy, efficiency, effectiveness and social equity, with innovation and compliance as cross-cutting dimensions, and document a sharp imbalance of attention: efficiency appeared 48 times, effectiveness 29, equity 17 and economy 2. Grossi et al. (2022) conceptualise hybrids through their approaches to value creation — mixing, compromising and legitimising — and show how accounting and accountability practices operate at the public-private-civil society interface.

The imbalance De Waele et al. document has a direct bearing on the present subject. If a hybrid enterprise is measured predominantly on efficiency, then the public-service objective for which it was brought into public ownership is the objective least likely to appear in its performance report, and its management will optimise accordingly. This is a measurement design problem rather than a management failure.

Politicisation

Inoue (2020) supplies the clearest quantified evidence of political interference, finding that vote-seeking politicians inflate enterprise headcount before elections so that these entities show elevated hiring and worse financial performance in election years, with the effect stronger in economically disadvantaged regions and weaker where private investors hold stakes. The evidence comes from Brazilian water utilities, which makes it a close structural analogue for regionally owned water enterprises elsewhere.

Szarzec et al. (2022), analysing approximately twelve thousand joint-stock companies from 2001 to 2017, find turnover of managers and supervisory board members higher in state-owned than in private firms and timed to elections, with a pronounced spike roughly three months after a new government forms and supervisory board changes coming earlier. They interpret this as politicians instrumentalising corporate governance for patronage rather than for business reasons.

Papenfuss and Schmidt (2023), using 1,832 observations across 291 German public corporations, find that executive directors who switched in from the private sector are paid substantially more and that politically mandated directors are paid more still, with operating-profit context amplifying these differentials. Politicisation is therefore not only an appointment phenomenon; it is priced.

Remunicipalisation in perspective

Because regionally owned enterprises are often discussed alongside a supposed global return of services to public ownership, the scale of that phenomenon should be stated accurately. Clifton et al. (2021) argue that conceptual ambiguity inflates it, showing that a widely cited count of 835 cases between 2000 and 2017 decomposes into 692 remunicipalisations and 143 new municipalisations, the latter not being reversals at all, and that United States longitudinal data show reversals peaking at 18 per cent of local service delivery in 1997 to 2002, falling to 12 per cent and settling at 10 to 11 per cent since. They conclude the phenomenon is pragmatic market management rather than systemic political change.

Voorn (2021), meta-analysing 34 peer-reviewed articles from 1995 to 2019, identifies 30 candidate causes of which 28 are actually found, with political and pragmatic factors most frequently confirmed and environmental factors under-studied but apparently relevant. Gradus and Budding (2020) supply detailed national evidence from Dutch waste collection between 1999 and 2014, where 271 municipalities, 49 per cent of the total, changed delivery mode across 506 switches, 310 toward outside production and 196 toward inside, and the market share of municipal enterprises rose from 5 per cent in 1999 to 33 per cent in 2010 to 2014. McDonald (2024), reviewing the field, maps its polarised debate, argues the incompatibilities between schools are less fundamental than assumed, and calls for broader geographic scope beyond Europe and North America.

The Indonesian evidence base

Three verified studies constitute the domestic record within the review window, and their scope should be stated precisely. Suwardi and Prasetyo (2018) apply data envelopment analysis to five non-financial production-service enterprises owned by one province over 2011 to 2016, finding three technically efficient throughout the period, one inefficient in three separate years, and one inefficient across the whole period. Miranti (2022) applies data envelopment analysis and the Malmquist index to regional water utilities from 2012 to 2016, finding significant inefficiency across regions, better performance outside Java than on it, no total factor productivity growth over the period, and recommending restructuring of larger municipal utilities. Siahaan et al. (2021), surveying 98 middle and senior managers across three food-sector enterprises in one province, find that of five dimensions tested only the financial variable had a significant effect on business outcomes, with human resource and technology improvements showing no statistically significant effect.

Azre (2019) adds a single-case governance study identifying political interference, over-centralisation, weak management and rent-seeking as the failures undermining the enterprise examined. It is illustrative rather than evidential, and is used here only as such.

A conceptual contribution from the Indonesian literature bears on how performance in publicly owned organisations should be theorised. Zulkifli et al. (2020), integrating intellectual capital theory with the resource-based view, propose that organisational learning improves the quality of strategy and that strategy quality in turn drives public

sector organisational performance. The paper is propositional rather than empirical and is cited for the mechanism it advances.

Read against the multiple-principal literature, the proposition identifies a constraint that governance reform alone does not reach. If performance depends on the quality of strategy, and strategy quality depends on organisational learning, then an enterprise answering to several principals with divergent expectations faces a prior difficulty: there is no single strategy for learning to improve. That reading is consistent with Krause et al.'s (2024) finding that board efficacy raises performance only indirectly, by relieving managerial role dilemmas.

Research gap

The gap is specific rather than general. Internationally, the performance literature is divided and its leading systematic review describes its own conclusions as tentative, while the coordination and multiple-principal literature is comparatively well developed. Domestically, no verified national study of governance or performance exists; no verified peer-reviewed source establishes the number of these enterprises, the share operating at a loss, their aggregate contribution to regional revenue, or sector growth rates; and no verified study within the window addresses capital injection by owner governments or the political appointment of directors and commissioners at regional level.

3. METHOD

The study is a structured review with a targeted search of the Indonesian record and an analysis of the principal structure. It generates no primary data and offers no estimate of the size, composition or performance of the Indonesian sector.

Source identification and verification

Peer-reviewed studies published between 2017 and 2024 on municipally owned corporations, corporatisation, state-owned enterprise governance, hybrid organisation performance measurement and remunicipalisation were identified and retained only where bibliographic details could be verified against a publisher page, a digital object identifier record, an indexing database record or an institutional repository. Sources whose findings could not be read directly were excluded even where bibliographic details were confirmed. For Indonesian sources, journal indexing status was checked and outlets without demonstrable accreditation or indexing were excluded, as were publishers identified as low-quality or pay-to-publish.

Treatment of the Indonesian record

Because the central domestic finding is an absence, the search is reported by what it returned rather than only by what it did not. Studies located are described with their sample size, period and scope so that the limits of the record are visible. Official statistical publications on the sector exist and are the appropriate source for sector counts and aggregates; they are not academic literature and no quantity is attributed to a journal article that did not generate it. No sector aggregate is reported here for that reason.

Analysis of the principal structure

The analytical component maps the principals to which a regionally owned enterprise answers, identifies which of the mechanisms described in the multiple-principal literature each configuration would generate, and derives research propositions. The propositions are not tested and are offered for examination.

4. RESULTS AND DISCUSSION

What corporatisation is for

Table 1. Verified findings on why governments create these enterprises

Source: compiled by the authors. The Canadian and English findings differ in emphasis and are reported as published rather than reconciled.

The two apparently conflicting findings in the middle rows are reconcilable if capacity determines whether a government can corporatise and fiscal position determines whether it wants to. On that reading, Bernier et al.'s (2022) capacity result and Andrews et al.'s (2020) debt and grant-dependence result describe a necessary condition and a motive respectively. The reading is an inference and is offered as one.

Bialek-Jaworska's (2022) off-balance-sheet finding is the one with the sharpest evaluative consequence. An enterprise whose creation relieves a borrowing constraint has already delivered part of its value to its owner at the moment of incorporation, before it trades. Judging it subsequently by return on capital assesses it against an objective that was not the operative one.

The principal structure and what it produces

Figure 1. Principals of a regionally owned enterprise and the mechanisms the configuration generates (authors' construction, after Voorn, van Genugten & van Thiel, 2019)

Figure 1 applies Voorn et al.'s (2019) framework to the configuration typical of a regionally owned enterprise. The enterprise answers to an executive owner, to a legislature controlling capital injection and budget, and frequently to a sector regulator setting tariffs. Each is a principal with a partial interest and none bears the full cost of monitoring, which is the condition under which their framework predicts free-riding, duplication and lobbying, with increased agent autonomy following.

Voorn and van Genugten (2022) show these mechanisms operating in practice and identify what contains them: civil services doing the bridging work between owners, and consensus on stewardship principles — which council interventions and unilateral owner actions then undermine. The implication for design is that the containment mechanism is administrative rather than statutory, so it depends on the capacity of the very civil service whose weakness often motivated corporatisation in the first place.

Krause et al.'s (2024) board finding fits here rather than standing apart. If board efficacy works by alleviating managerial role dilemmas, and if role dilemmas arise from serving multiple principals with divergent expectations, then board reform is a treatment of the symptom the principal structure produces. That is worth doing and is bounded: it cannot resolve a conflict that originates in the ownership arrangement.

Performance evidence and its division

Table 2. Divided findings on performance

Source: compiled by the authors. The studies differ in country, sector, period and method and are not pooled; the table records the division in the evidence rather than resolving it.

The honest reading of Table 2 is that the efficiency case rests on a review whose authors call its conclusions tentative, while the countervailing evidence includes a complete national population studied over decades. That does not establish that corporatisation fails; the Swedish study concerns association rather than causation, and heavy reliance on such corporations may be a symptom of the same conditions that produce higher

taxes and weaker accountability. It does establish that a confident claim in either direction is not currently supportable.

De Waele et al.'s (2021) measurement finding suggests why the literature may be divided at cross purposes. If efficiency is measured 48 times for every 17 measurements of equity and 2 of economy, then studies reporting favourable efficiency results and studies reporting unfavourable governance and citizen-outcome results may both be right about different objectives of the same entities.

The Indonesian record and what it can support

Table 3. Verified Indonesian studies within the review window

Source: compiled by the authors. Sector counts, loss-making shares and revenue contributions are available from official statistical publications and are not attributed to any of these studies.

What this record can support is limited and worth stating plainly. It can support the claim that inefficiency has been measured in specific Indonesian enterprises in specific periods. It cannot support any claim about the sector as a whole, about trends, about the relationship between governance arrangements and performance, or about how Indonesian entities compare with those elsewhere. Arguments of the latter kinds are made frequently in policy discussion and do not have a research base behind them.

Miranti's (2022) finding that utilities outside Java performed better than those on it is the single most interesting unexplained result in the domestic record, because it cuts against the expectation that capacity and scale favour the more developed region. It is also, on present evidence, unreplicated.

A research programme

Four studies follow, ordered by what must be established first. The first is descriptive and foundational: a national account of these enterprises by sector, size, ownership structure and financial position, drawn from official statistics, which would allow every subsequent question to be posed against a known population rather than a convenience sample. The second tests the fiscal motive — whether enterprise creation and capital injection track owner-government debt position and borrowing constraints, as Bialek-Jaworska (2022) and Andrews et al. (2020) find elsewhere.

The third examines politicisation directly, testing whether director and commissioner turnover clusters after regional executive elections as Szarzec et al. (2022) find for a different setting, and whether employment rises in election years as Inoue (2020) finds for Brazilian water utilities. Indonesian regional elections provide the timing variation such a design requires. The fourth addresses the measurement problem De Waele et al. (2021) identify, examining what these enterprises are actually measured on and whether the public-service objective appears in their reporting at all.

McDonald's (2024) call for geographic broadening beyond Europe and North America indicates that such work would contribute internationally and not only domestically, and Clifton et al.'s (2021) caution against inflated accounts of public ownership trends indicates the standard of conceptual precision it would need to meet.

Limitations

Four limitations qualify this study. First, it reviews rather than measures, and every claim about Indonesian enterprises is a claim about the literature rather than about the entities. Second, the international evidence is drawn from European, Canadian, Brazilian and Australian settings whose legal forms and political systems differ from the

Indonesian one, so its transferability is assumed rather than demonstrated. Third, the absence in the Indonesian record is reported as not located rather than established, since material in unindexed outlets may exist. Fourth, the reconciliation offered between the capacity and fiscal-position findings on corporatisation is an inference and has not been tested.

5. CONCLUSION

Regionally owned enterprises are asked to be commercial, to serve the public, and to remit revenue, and the international evidence indicates that they are frequently created for a fourth reason that is rarely stated: to relieve the owner government's fiscal constraints. Corporate leverage extends an owner's borrowing capacity off balance sheet, grant dependence and debt predict company creation, and administrative capacity determines which governments can use the form at all. An entity created for that reason and evaluated on return on capital is being assessed against the wrong objective.

Governance is complicated structurally rather than incidentally. Multiple principals — an executive owner, a legislature controlling capital, a sector regulator — generate free-riding on monitoring, duplicated oversight and lobbying, with increased agent autonomy as the result; what contains this is administrative bridging work rather than statutory design, and board reform helps by relieving the resulting role dilemmas rather than by driving performance directly. Politicisation is measurable, with election-year hiring, post-election board turnover and a documented pay premium for politically mandated directors.

On whether these enterprises perform, the evidence is divided and should be presented as such. A systematic review finds them often more efficient than direct provision while calling its own conclusions tentative; a study of all 290 Swedish municipalities finds heavy reliance associated with more perceived corruption and higher taxes and no better citizen satisfaction. Part of the division may be a measurement artefact, since hybrid performance research measures efficiency roughly three times as often as equity and twenty times as often as economy.

For Indonesia the position is starker. The verified record within this review window consists of two small data envelopment studies, one survey of 98 managers in three enterprises, and one single case. There is no verified national study of governance or performance, and no peer-reviewed source establishes the sector's size, its loss-making share or its revenue contribution. Policy argument about these enterprises is therefore running well ahead of evidence about them, and the first contribution available is not a better argument but a description of the population.

DECLARATIONS

Author contributions (CRediT)

Conceptualisation: Author 1. Methodology: Author 1. Formal analysis and investigation: Author 1. Writing — original draft preparation: Author 1. Writing — review and editing: Author 1. Supervision: Author 1. All named authors have read and approved the final manuscript and accept responsibility for its content.

Conflict of interest

The authors declare that they have no financial or non-financial conflict of interest in relation to the subject matter of this article. No author holds a position in, or receives support from, any organisation examined or evaluated in this study.

Data availability

This study generated no primary data. It draws exclusively on published peer-reviewed literature, publicly available legal instruments and publicly available official statistics, all of which are identified in the text and listed in the references. No confidential administrative record, individual taxpayer record, permit file or personal datum was accessed, and no individual person or business is identified. Every quantity reported was traced to a single identified public source and can be verified by any reader from that source.

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Declaration on the use of artificial intelligence

In accordance with COPE, ICMJE and WAME positions, and with the RCP AI Use Declaration requirement, the authors disclose that generative artificial intelligence tools were used in preparing this manuscript, specifically to assist with literature identification, synthesis of the reviewed sources, and language editing of the draft. Artificial intelligence was not used to generate data, results or citations. Every reference in this article was verified by the authors against the publisher's own record, a digital object identifier record or an indexing database record before inclusion, and sources whose bibliographic details or indexing status could not be confirmed were excluded. No artificial intelligence tool is listed as an author. The authors take full responsibility for the accuracy, integrity and originality of the entire content of this article.

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