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## Corporate scandals, leadership traits, and governance: insights from Indonesian state owned enterprises (2021-2022)

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### ABSTRACT

The discourse on Good Corporate Governance (GCG) has increasingly become a focal point in the contemporary business landscape. State-Owned Enterprises (SOEs), as pivotal contributors to the Asian economy, continue to enhance their corporate governance frameworks to meet global standards. However, over the past few years, several Indonesian SOEs have been embroiled in corruption scandals and governance lapses, attracting substantial media scrutiny. This study investigates the impact of Corporate Scandals, Board Nationality, Industry Specialization, and CEO Narcissism on the enhancement of GCG Scores in Indonesian SOEs during the 2021-2022 period. Employing a quantitative research approach, secondary data were extracted from the annual reports of 143 Indonesian SOEs. Through purposive judgment sampling, 79 firms were selected for analysis. The study utilized multiple linear regression analysis via SPSS version 25 to examine the relationships among the variables. The empirical findings reveal that Corporate Scandals, Board Nationality, Industry Specialization, and CEO Narcissism collectively exert a significant influence on GCG Score improvements. Individually, each variable also demonstrates a substantial impact on governance enhancement. Notably, these four factors account for 67% of the variations in GCG Scores, suggesting that the remaining 33% is attributable to other determinants beyond the scope of this study. These results underscore the critical need for Indonesian SOEs to strengthen their governance mechanisms, mitigate unethical corporate practices, and cultivate leadership attributes that align with sound governance principles. Future research should explore additional variables influencing GCG performance to provide a more comprehensive understanding of corporate governance dynamics in emerging markets.



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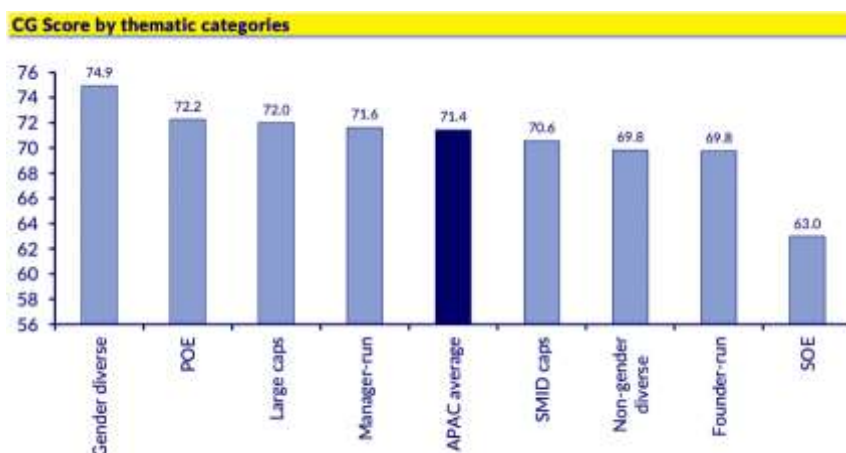
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## Introduction

The development of accounting science has progressed drastically in line with the evolving business world, which is becoming increasingly environmentally conscious, emphasizing sustainability and social responsibility. The growth of businesses in Indonesia has significantly advanced, influencing the demand for both financial and non-financial information, which plays a crucial role in corporate business activities. Companies are increasingly under the spotlight among stakeholders in assessing their performance in terms of environmental, social, and corporate governance responsibilities. In recent years, the issue of good corporate governance (GCG) has

become a primary focus in the business and financial world (Iramani et al., 2018). Good corporate governance is crucial in supporting business sustainability and growth amid the dynamics of the global economy.

State-Owned Enterprises (SOEs) as one of the key participants in the Asian economy, continue to strive to improve corporate governance practices to align with international standards. The correlation between the ACGA score and the corporate governance score of Indonesian SOEs also reflects the efforts of companies and regulators in Indonesia to continuously enhance and comply with good corporate governance standards. The following chart illustrates the relationship between the ACGA score and governance scores in Indonesia, the extent to which good governance practices impact corporate performance, and the various efforts companies have undertaken to improve corporate governance.



**Figure 1 <Corporate Governance Score by Type of Company. (Source: CG Watch, 2023)>**

CG Watch has conducted research on Corporate Governance scores and categorized them based on key company ownership characteristics. The ACGA rankings and scores provide an overview of the maturity level of corporate governance. Companies with high scores demonstrate the adoption of good and transparent governance practices, while low scores may indicate a need for governance improvements. Based on CG Watch findings, it is evident that State-Owned Enterprises (SOEs) have the lowest Corporate Governance score, at 63 points. This indicates that the adoption of corporate governance practices in the SOE sector is still not optimal and needs further improvement. SOEs play a crucial role in Indonesia's economy.

The Indonesian government has encouraged increased transparency and accountability in SOEs management through various policies, including Good Corporate Governance (Sabilla & Djuminah, 2019). However, in reality, over the past few years, various SOEs in Indonesia have been under media scrutiny due to involvement in corruption scandals and poor governance (Sabilla & Djuminah, 2019). Such cases create doubts about the credibility and public trust in SOEs. In this study, researchers identified several cases highlighting the weak implementation of GCG in Indonesian SOEs, as Tabel 1.

From the Table 1, it can be said that there are many cases of GCG violations occurring in Indonesian SOEs, despite the fact that SOEs should demonstrate good performance and management in line with their role in the national economy. If such violations continue, the credibility of SOEs will decline in the eyes of the public. Based on this phenomenon, if no attention is given and no improvements are made, it will negatively impact the value of GCG implementation due to internal corporate governance violations.

According to the Ministry of SOEs Regulation No. PER-02-MBU-03/2023 on Corporate Governance of SOE Activities, Article 44 states that SOEs are required to assess the implementation of Good Corporate Governance, resulting in a GCG Score.

Tijow et al. (2021) state that the GCG Score is determined by organizational leadership, where the control environment includes values of integrity and ethics, management philosophy and operational style, organizational structure, policies, and resource practices (Tijow et al., 2021).

Furthermore, effective corporate governance is linked to the performance of the Board of Directors, which should consist of independent, talented individuals with extensive knowledge, experience, and diverse perspectives in shaping corporate policies based on GCG principles (Ramli & Setiany, 2021).

The Board of Directors plays a crucial role in determining the level of GCG implementation, indirectly contributing to the improvement of GCG implementation value and the development of corporate commitment to good governance practices (Purnamasari & Trihatmoko, 2022).

Table 1 &lt;Cases of GCG Violations in SOEs&gt;

Source	Media	Cases of GCG Violations in SOEs
May 3, 2021, Inggried Dwi Wedhaswary, IDX Channel	<a href="https://www.idxchannel.com/economics/kasus-rapid-test-bekas-dirut-kimia-farma-diagnostik-diperiksa">https://www.idxchannel.com/economics/kasus-rapid-test-bekas-dirut-kimia-farma-diagnostik-diperiksa</a>	The Ministry of State-Owned Enterprises (SOEs) dismissed the entire board of directors of Kimia Farma Diagnostika as a follow-up to the case involving the use of reused antigen rapid test kits.
August 11, 2022, by Irfan Kamil. Berita Kompas	<a href="https://nasional.kompas.com/read/2022/08/11/2531511/eks-pejabat-adhi-karya-divonis-lebih-berat-dari-tuntutan-hakim-terdakwa-tak">https://nasional.kompas.com/read/2022/08/11/2531511/eks-pejabat-adhi-karya-divonis-lebih-berat-dari-tuntutan-hakim-terdakwa-tak</a>	The Corruption Court (Tipikor) at the Central Jakarta District Court handed down a heavier sentence to the Head of Construction Division VI of PT Adhi Karya (Persero) than the demand of the public prosecutor from the Corruption Eradication Commission (KPK). This is related to the construction project of the Institute of Public Administration (IPDN) campus building in Minahasa, North Sulawesi.
January 17, 2023, by Adhi Wicaksono, CNN Indonesia	<a href="https://www.cnnindonesia.com/nasional/20230117182826-12-901644/kpk-korupsi-anoda-logam-pt-antam-rugikan-negara-rp1007-miliar">https://www.cnnindonesia.com/nasional/20230117182826-12-901644/kpk-korupsi-anoda-logam-pt-antam-rugikan-negara-rp1007-miliar</a>	The KPK stated that the metal anode processing cooperation between PT Antam Tbk and PT Loco Montrado has caused state losses amounting to IDR 100.7 billion. In this case, the KPK has named the General Manager of the Precious Metals Processing and Refining Business Unit (UBPP) of PT Antam Tbk, Dodi Martimbang, as a suspect.
02 Mei 2023 oleh Suparjo Ramalan, iNews	<a href="https://www.inews.id/ultimedia/infografis/info-grafis-dirut-waskita-karya-destiawan-masuk-blacklist">https://www.inews.id/ultimedia/infografis/info-grafis-dirut-waskita-karya-destiawan-masuk-blacklist</a>	Destiawan and Bambang have been named suspects in a corruption case related to the misuse of financing facilities from several banks by Waskita Karya and its subsidiary, PT Waskita Beton Precast Tbk. Another suspect in the case is Haris Gunawan, who served as Director of Finance and Risk Management at Waskita Karya from May 2018 to June 2020.
19 September 2023 oleh Fika Nurul, Kompas	<a href="https://nasional.kompas.com/read/2023/09/20/08410971/karen-agustiawan-2-kali-terjerat-kasus-di-pertamina-kali-ini-karena-tak">https://nasional.kompas.com/read/2023/09/20/08410971/karen-agustiawan-2-kali-terjerat-kasus-di-pertamina-kali-ini-karena-tak</a>	The Corruption Eradication Commission (KPK) has named the former President Director of PT Pertamina, Galaila Karen Kardinah (GKK), also known as Karen Agustiawan, as a suspect in the alleged corruption case involving the procurement of liquefied natural gas (LNG) at PT Pertamina from 2011 to 2021.

Corporate scandals can damage a company's reputation. They often arise from strategic failures and fraud by top management, which go undetected for extended periods, leading to a decline in GCG value (Syofyan & Putra, 2020). Nguyen et al. (2023) state that fewer corporate scandals correlate with better corporate governance values. Additionally, research by Mahrani & Soewarno (2018) indicates a negative relationship between corporate scandals and GCG (Mahrani & Soewarno, 2018). However, Del Giudice & Rigamonti (2020) argue that companies do not exhibit significant changes in their GCG scores after experiencing scandals (Del Giudice & Rigamonti, 2020).

In the contemporary business world, ethnic diversity is one of the most modern drivers of broad corporate governance. Studies on boardroom ethnic diversity generally recognize that the presence of different ethnic backgrounds in boardrooms plays a sensitive role in behavioral management practices and corporate governance disclosures (A. A. Zaid et al., 2020). Fostering a creative environment by sharing knowledge and experiences stimulates high-quality decision-making, ultimately enhancing corporate governance value (Iannuzzi et al., 2023).

The specialization of the Board of Directors' competencies, as a process of acquiring, interpreting, storing, and applying new knowledge to improve problem-solving abilities within an organization, also influences corporate governance value (Susilowati et al., 2021). The knowledge of the Board of Directors has been found to have a significant positive effect on Good Corporate Governance in Social Welfare Institutions in Banten. This aligns with research by Zulfikar et al. (2020), which states that directors with a high level of knowledge and understanding can provide more effective supervision and guidance, encouraging management to comply with corporate governance practices (Zulfikar et al., 2020).

The Board of Directors plays a critical role in the successful implementation of good governance, as they are responsible for the entire business process and decision-making within an organization. Additionally, narcissistic directors are particularly concerned with how they are perceived by stakeholders, leading to an increased emphasis on third-party interests and cautious decision-making to avoid negative consequences (Riera & Iborra,

2023). This is supported by research from Ismail et al. (2023), which suggests that narcissism drives top management to make decisions that impact financial performance (Ismail et al., 2023). Narcissistic directors tend to use resources to enhance financial figures, boosting their ego and self-esteem while seeking positive social status (Ahn et al., 2020). Furthermore, research by Riyadi & Rien Agustin (2022) indicates that narcissistic directors significantly influence financial reporting quality (Suryadi & Rien Agustin, 2022). This is directly related to the transparency aspect of GCG values.

Based on the explanation of the phenomenon, theories, and previous research findings that show inconsistencies among the variables mentioned above, it indicates that there are uncertain results regarding the influence of these variables on Good Corporate Governance. This uncertainty leads the researcher to further investigate how Corporate Scandal, Board Nationality, Industry Specialization, and CEO Narcissism affect the improvement of the Good Corporate Governance Score. The role of Good Corporate Governance in ensuring transparent, accountable, and trustworthy management is crucial, not only for state-owned enterprises (SOEs) that have gone public but also for all SOEs that play a significant role in the livelihood of the Indonesian people. Consistent implementation of GCG will strengthen the competitive position of SOEs, maximizing company value through efficient and effective resource management and risk management (Tijow et al., 2021). This study aims to analyze the influence of Corporate Scandal, Board Nationality, Industry Specialization, and CEO Narcissism on the Good Corporate Governance Score of SOEs in Indonesia from 2021 to 2022. Based on the research objectives and the explanations above, the research framework is structured as follows:

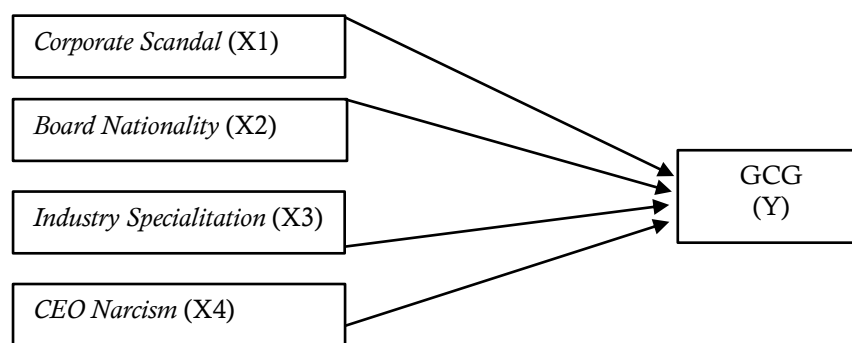


Figure 2 <Research Framework>

Based on previous research findings and the research framework, the hypotheses in this study are as follows: H1: Corporate Scandal affects GCG, H2: Board Nationality affects GCG, H3: Industry Specialization affects GCG, H4: CEO Narcissism affects GCG.

## Method

This study is a quantitative research, which is defined as a research method used to study a specific population or sample, where data collection is conducted using research instruments, data analysis is quantitative/statistical in nature, and the goal is to test predefined hypotheses (Sugiyono, 2019). The population in this study **consists** of 143 State-Owned Enterprises (SOEs), including parent entities and subsidiaries, for the period of 2021 and 2022. The research sample will be selected using the judgment sampling method, a type of purposive sampling. Based on the sampling criteria, the final sample for this study consists of 79 SOEs. The type of data used in this study is secondary data, obtained from the Annual Reports of SOEs for 2021-2022, which are documented from each company's official website. The sources of secondary data in this research include SOE Annual Reports, books, journals, and articles related to the research topics of Corporate Scandal, Board Nationality, Industry Specialization, CEO Narcissism, and GCG Score. The data analysis method employed in this study is multiple linear regression analysis using SPSS version 25. Below are the operational definitions of each variable:

Table 2 <Operational Definition of Variables and Measurement Indicators>

Variable Name	Definisi	Definition	Source
Good Corporate Governance (GCG)	GCG is corporate governance that ensures actions are taken in the best interests of stakeholders through corporate management	The GCG Score is a value ranging from 0 to 100, issued by an independent party appointed by the Board of Commissioners/Supervisory Board through a process in	(Menicucci & Paolucci, 2022) Regulation of the Ministry of SOEs Number

Variable Name	Definisi	Definition	Source
	systems and processes (such as the structure and functions of the board of directors, compensation policies, etc.).	accordance with each <b>SOE's</b> procurement regulations. The assessment can be conducted using the services of a government institution that is competent in the field of <b>Good Corporate Governance</b> .	PER-02-MBU-03/2023
<i>Corporate Scandal</i>	Managerial actions that increase or decrease the reported profits of their responsibility units that are unrelated to the increase or decrease in the company's long-term profitability.	The value of discretionary accruals, which is an indicator of accrual earnings management, is calculated by subtracting total accruals from nondiscretionary accruals : $DAit - NDAit$ ;	(Mahrani & Soewarno, 2018)
<i>Board Nationality</i>	Ethnic diversity within a company's board of directors refers to the representation of various geographical regions among board members.	It is measured using a dummy variable, assigned a value of 1 if there is ethnic diversity in the board of directors and 0 if there is none.	(Iannuzzi et al., 2023a)
<i>Industry Specialisation</i>	Board specialization can be assessed based on the level of education, managerial background, expertise, professional certifications, professional experience, or previous employment. The length of time a CEO has served in a company within a specific specialization.	Measuring the tenure of the Board of Directors based on the number of years they have served as a Director in a company within the same sector. Four points if they have served in a company within the same sector for more than 10–15 years. Five points if they have served in a company within the same sector for more than 15 years. Three points if they have served in a company within the same sector for 5–10 years. Two points if they have served in a company within the same sector for 1–5 years. One point if they have never served in a company within the same sector.	(Sonda & Sutrisno, 2022)
<i>CEO Narcism</i>	CEO's photo in the company's annual report	The CEO's photo is assigned different scores: Four points if the director's photo is a full-body image of themselves. Three points if the director's photo is of themselves but not full-body. Two points if the director's photo occupies half a page or less. One point if the director is photographed with one or more executive colleagues.	(Suryadi & Rien Agustin, 2022)

## Results and Discussions

The company sample uses data from state-owned enterprises (BUMN) for the years 2021–2022. Upon further review, the number of companies listed on the Indonesia Stock Exchange (BEI) during 2021–2022 is 79, with a total of 158 data points required. Descriptive analysis of the Good Corporate Governance (GCG) score, corporate scandals, board nationality, industry specialization, and CEO narcissism provides a comprehensive overview of these variables across various sectors within BUMN. Corporate scandals in BUMN are analyzed using discretionary accruals measured with specific financial metrics. These metrics offer insights into financial

manipulation and irregularities contributing to scandals while highlighting areas that require improvements in corporate governance.

Board nationality diversity is a crucial characteristic across all BUMN business sectors, fostering a decision-making environment that reflects Indonesia's ethnic diversity. This inclusivity in board composition promotes a more holistic governance approach and ensures that the interests of the entire population are represented. Regarding industry specialization, sectors such as Insurance and Pension Funds, Minerals and Coal, and Telecommunications have an average score of 4, indicating a high level of director experience. Conversely, sectors like Manufacturing and Tourism, with a standard deviation of 1.37, show greater variation in director experience levels. Understanding these differences allows BUMN to identify strengths and weaknesses in their leadership structure and develop leadership development strategies tailored to the unique characteristics of each sector.

CEO narcissism is assessed across various BUMN business sectors using a rating scale from 1 to 4, where a score of 1 indicates a non-narcissistic CEO, while a score of 4 indicates significant narcissistic traits. This evaluation helps understand how CEO personality traits can influence corporate governance and decision-making processes in BUMN. This comprehensive analysis emphasizes the importance of examining GCG scores, corporate scandals, board diversity, industry specialization, and CEO narcissism to enhance governance practices in BUMN. These insights can serve as a guide in formulating more effective policies and strategies to strengthen governance and leadership across different sectors. This study also conducts a thorough classical assumption test to ensure that the research data meets the requirements for multiple linear regression analysis. The following are the results of the classical assumption tests conducted:

Table 3 &lt;Normality Test&gt;

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		158
Normal Parameters <sup>a,b</sup>	Mean	0.0000000
	Std. Deviation	5.88185027884803
Most Extreme Differences	Absolute	0.048
	Positive	0.035
	Negative	-0.048
Test Statistic		0.048
Asymp. Sig. (2-tailed)		.200 <sup>c,d</sup>
a. Test distribution is Normal.		
b. Calculated from data.		
c. Lilliefors Significance Correction.		

The normality test has conditions stating that if the P-value is greater than 0.05, it leads to the acceptance of the null hypothesis ( $H_0$ ). This means that the data distribution is normal. Conversely, if the P-value is less than 0.05, the null hypothesis ( $H_0$ ) is rejected, indicating that the data distribution is not normal. Based on the table above, the results of the normality test for all the examined variables simultaneously show a probability value of 0.200 ( $p > 0.05$ ), which means that the data distribution is normal.

Table 4 &lt;Multicollinearity Test&gt;

		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
Model		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	76.606	3.515		21.792	0.000		
	X1	-0.038	0.000	-0.132	-2.709	0.010	0.986	1.015
	X2	9.421	3.046	0.240	3.093	0.002	0.982	1.019
	X3	0.403	0.457	0.069	2.881	0.008	0.978	1.022
	X4	0.557	0.643	0.067	3.866	0.004	0.984	1.016

a. Dependent Variable: Y

Source: Data processed using SPSS (2023)

In the table, the variables Corporate Scandal, Board Nationality, CEO Specialization, and CEO Narcissism have a Variance Inflation Factor (VIF) value of less than 10, and the tolerance value is greater than 0.01, indicating the absence of multicollinearity.

Table 5 &lt;Heteroscedasticity Test&gt;

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	6.356	2.098		3.030	0.003
X1	9.731E-15	0.000	0.058	0.729	0.467
X2	0.768	1.817	0.034	0.422	0.673
X3	-0.314	0.273	-0.093	-1.152	0.251
X4	-0.567	0.383	-0.119	-1.480	0.141

a. Dependent Variable: ABS\_res1

Source: Data processed using SPSS (2023)

In this study, the heteroscedasticity test was conducted using the Glejser test. In the table above, it is shown that the variables Corporate Scandal, Board Nationality, CEO Specialization, and CEO Narcissism have a significance value greater than 0.05, indicating that there is no sign of heteroscedasticity in this Glejser test.

Table 6 &lt;Multiple Linear Regression Analysis&gt;

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	76.606	3.515		21.792	0.000		
X1	-0.038	0.000	-0.132	-2.709	0.010	0.986	1.015
X2	9.421	3.046	0.240	3.093	0.002	0.982	1.019
X3	0.403	0.457	0.069	2.881	0.008	0.978	1.022
X4	0.557	0.643	0.067	3.866	0.004	0.984	1.016

a. Dependent Variable: Y

Source: Data processed using SPSS (2023)

Based on the table above, the regression model used is:  $Y = 76,606 + (-0,038X_1) + 9,421X_2 + 0,403X_3 + 0,557X_4 + e$ . Explanation:  $Y = \text{GCG Score}$ ,  $X_1 = \text{Corporate Scandal}$ ,  $X_2 = \text{Suku Bangsa}$ ,  $X_3 = \text{Industry Specialize}$ ,  $X_4 = \text{CEO Narcism}$ ,  $E = \text{Standard Error}$

After the regression model equation is established, the individual effects of the independent variables (Corporate Scandal, Board Nationality, Industry Specialization, and CEO Narcissism) on the dependent variable GCG Score can be observed as follows: (1) The constant value of 76.606 indicates that when the values of the independent variables (Corporate Scandal, Board Nationality, Industry Specialization, and CEO Narcissism) are equal to 0 (zero) or when the independent variables influence the dependent variable, the GCG Score increases by 76.600; (2) Corporate Scandal has a coefficient value of -0.038, which indicates that the Corporate Scandal variable and the GCG Score variable have an inverse correlation. This means that the higher the Corporate Scandal value, the lower the GCG Score, and vice versa the lower the Corporate Scandal value, the higher the GCG Score; (3) Board Nationality has a coefficient value of 9.421, indicating a positive correlation with the GCG Score. This means that the higher the Board Nationality value, the higher the GCG Score, and vice versa the lower the Board Nationality value, the lower the GCG Score; (4) Industry Specialization has a coefficient value of 0.403, indicating a positive correlation with the GCG Score. This means that the higher the Industry Specialization value, the higher the GCG Score, and vice versa the lower the Industry Specialization value, the lower the GCG Score; (5) CEO Narcissism has a coefficient value of 0.557, indicating a positive correlation with the GCG Score. This means that the higher the CEO Narcissism value, the higher the GCG Score, and vice versa the lower the CEO Narcissism value, the lower the GCG Score.

Table 7 &lt;Coefficient of Determination&gt;

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	0.706 <sup>a</sup>	0.693	0.670	5.958241	2.649

a. Predictors: (Constant), X4, X3, X2, X1  
b. Dependent Variable: Y

Source: Data processed using SPSS (2023)

Based on the table above, the adjusted R-squared value is 0.670, meaning that 67.0% of the GCG Score can be influenced or explained by the independent variables Corporate Scandal, Board Nationality, CEO



Specialization, and CEO Narcissism, while the remaining 33.0% is influenced by other variables not examined in this study. The R-squared value of 0.693 indicates that 69.3% of the GCG Score can be predicted by Corporate Scandal, Board Nationality, CEO Specialization, and CEO Narcissism, while the rest is explained by other variables. Furthermore, the R-value in this study is 0.706, indicating that the correlation between the dependent variable (GCG Score) and the independent variables (Corporate Scandal, Board Nationality, CEO Specialization, and CEO Narcissism) is 70.6%.

Table 8 &lt;F-Test&gt;

Model	Sum of Squares	ANOVA <sup>a</sup>		F	Sig.
		df	Mean Square		
1 Regression	559.278	4	139.820	8.939	0.005 <sup>b</sup>
Residual	5431.598	153	35.501		
Total	5990.876	157			

a. Dependent Variable: Y

b. Predictors: (Constant), X4, X3, X2, X1

Source: Data processed using SPSS (2023)

From the table above, it can be seen that the significant value is 0.005, which means it is less than 0.05 with a calculated F value of 8.939, so it is greater than the F table value of 2.430 obtained from the calculation of  $df_1 = k-1 = 4-1 = 3$  and  $df_2 = N-k = 158-4 = 154$  (alpha value 0.05), so it can be concluded that the independent variables, namely Corporate Scandal, Board Nationality, Industry Specialize, and CEO Narcissism simultaneously have a significant effect on the GCG Score.

Table 9 &lt;T-Test&gt;

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	76.606	3.515		21.792	0.000
	X1	-0.038	0.000	-0.132	-2.709	0.010
	X2	9.421	3.046	0.240	3.093	0.002
	X3	0.403	0.457	0.069	2.881	0.008
	X4	0.557	0.643	0.067	3.866	0.004

a. Dependent Variable: Y

Source: Data processed using SPSS (2023)

Based on the table above, it can be explained as follows: (1) Corporate Scandal variable with a t-value of -2.709 with a t-table value of 1.975 from the calculation ( $n-k-1 = 158-4-1 = 153$ , alpha value 0.05) then t-count < t-table and a significant value of 0.010 < 0.05, then it can be concluded that H1 is accepted, meaning that corporate scandal has an effect on GCG Score, with a negative relationship direction; (2) Board Nationality variable has a t-value of 3.093, this value is greater than the t-table ( $3.093 > 1.975$ ) and a significant value of 0.002 < 0.05, then it can be concluded that H2 which states that Board Nationality has an effect on GCG Score, is accepted; (3) The Industry Specialize variable has a t count of 2.881 which is greater than the t table of 1.975 ( $2.881 > 1.975$ ) and a significant value of 0.008 < 0.05, meaning that H3 which states that Industry Specialize has an effect on GCG Score is accepted; (4) The CEO Narcism variable has a t count of 3.866 which is greater than the t table of 1.975 ( $3.866 > 1.975$ ), with a significant value of 0.004 < 0.05, meaning that H4 which states that CEO Narcism has an effect on GCG Score is accepted.

### The Influence of Corporate Scandals on Increasing GCG Score

Corporate scandals, as events that create a company's negative image, can decrease the value of Good Corporate Governance (GCG). Scandals can include corruption, manipulation of financial reports, or other ethical violations that can harm the interests of company stakeholders, damaging the company's trust and reputation in the eyes of investors, customers, and the wider community. Increasing GCG values is closely related to the company's openness, accountability and transparency in its operations. Instead, scandals create uncertainty, a lack of transparency, and erode trust. The first hypothesis (H1) in this research is to test whether Corporate Outrage significantly affects the GCG Score. Based on the results of speculative testing, the corporate scandal decreased the GCG Score in state-owned enterprises (SOES) in Indonesia from 2021 to 2022.

The division of ownership and control is emphasized by agency theory, which also highlights agency conflicts between owners, or principals, and agents, or managers. Within this framework, it is possible to interpret corporate crises as the outcome of actors acting in ways that maximize their own interests, frequently by deceitful



or dishonest means. Furthermore, a company's credibility may be jeopardized by corporate scandals as they may inspire public mistrust and uncertainty. According to legitimacy theory, businesses must adhere to accepted societal norms and values in order to be supported and given legitimacy. The results are supported by previous research where corporate scandals influence corporate government (Oyugi et al., 2024), especially on company performance in the financial sector or implementing a company's sustainable investment (Dmuchowski et al., 2023).

#### **The Influence of Board Nationality on Increasing GCG Score**

A balanced and representative composition of the board of directors can significantly impact the effectiveness of corporate governance. In the context of SOES, GCG assessment not only includes general criteria such as transparency, accountability and legal compliance but also considers the principles of national representation in company management. Diversity of nationalities on the board of directors can ensure that various perspectives and national interests are reflected in strategic decision-making and can reduce the risk of conflicts of interest. This research's second hypothesis (H2) is to test whether Board Nationality affects increasing the GCG Score. Based on the results of hypothesis testing, it was found that the Board Nationality variable had an effect on increasing the GCG Score in State-Owned Enterprises (SOES) in Indonesia in 2021-2022.

This follows the research results (Fadillah Syahnur & Elmi, 2023)), which state that there is an influence on Board Nationality and Good Corporate Governance (Mauliddah & Sari, 2023). (Goyal et al., 2019) also state that board members consider diversity an essential requirement for the effectiveness of the board's role. A functionally diverse Board of Directors manages external dependencies more effectively and challenges executive assumptions more efficiently, thereby improving GCG.

#### **The Influence of Industry Specialization on Increasing GCG Score**

Integrating industrial expertise with good corporate management can strengthen SOES's ability to face global competition and manage complex business risks. Therefore, SOESs must ensure that their directors have sufficient industry expertise while adhering to GCG principles, including transparency, accountability and business ethics. In this way, industry-specialized SOES Directors can become a strategic asset that supports sustainable growth and business sustainability while still adhering to high governance standards. This research's third hypothesis (H3) is to test whether Industry Specialize affects increasing GCG Score (Bansal et al., 2023). Based on the results of hypothesis testing, it was found that the Industry Specialize variable had an effect on increasing the GCG Score in State-Owned Enterprises (SOES) in Indonesia in 2021-2022.

Moreover, this is by research (Ainun et al., 2024) states that the value of Corporate Governance can be seen from the higher the CEO's understanding of corporate governance laws or regulations and the length of time the CEO has worked in the organization.

#### **The Influence of CEO Narcissism on Increasing GCG Score**

Narcissistic CEOs may also have a drive to achieve high personal achievements, including increasing GCG scores. Motivation to achieve success and a pleasing appearance in GCG (Frankel, 2022), indicators can encourage companies to implement best practices in corporate governance. In some contexts, a narcissistic CEO's courage, ambition, and drive can be positive drivers for improving GCG. This research's fourth hypothesis (H4) is to test whether CEO Narcissism affects increasing GCG Score. Based on the results of hypothesis testing, it was found that the CEO Narcissism variable affected increasing the GCG Score in state-owned companies in Indonesia in 2021-2022.

Based on research (Sun et al., 2024) explaining CEO Narcissism's influence on Corporate Governance assessments. CEO narcissism has multidirectional effects that are highly dependent on context and situational features that enhance, suppress, and activate narcissistic behavior.

## **Conclusions**

It is known that, as cited in the introduction, in recent years, various State-Owned Enterprises (SOES) in Indonesia have been in the media spotlight due to involvement in corruption scandals and poor governance. As a result of this phenomenon, the credibility of BUMN has declined in the eyes of the public. Therefore, this study aims to re-examine the influence of Corporate Scandal, Board Nationality, Industry Specialization, and CEO Narcissism on the improvement of the Good Corporate Governance (GCG) Score.

The results of this study show that Corporate Scandal has a significant negative effect on the increase of the GCG Score in State-Owned Enterprises (SOES) for the years 2021-2022, as evidenced by statistical tests showing a t-calculated value of -2.709, a t-table value of 1.975, and a significance value of  $0.010 < 0.05$ , indicating that t-calculated < t-table. The relationship between SOES scandals and the Good Corporate Governance (GCG)

Score is very strong, as scandals often reflect failures in implementing GCG principles, which directly impact GCG assessment.

Board Nationality has a significant effect on the increase of the GCG Score in State-Owned Enterprises (SOES) for the years 2021-2022, as evidenced by statistical tests showing a t-calculated value of 3.093, which is greater than the t-table value ( $3.093 > 1.975$ ), and a significance value of  $0.002 < 0.05$ . The relationship between Board Nationality and GCG assessment is crucial, as a balanced and representative board composition can significantly impact the effectiveness of corporate governance, thereby improving the GCG Score.

Industry Specialization has a significant effect on the increase of the GCG Score in State-Owned Enterprises (SOES) for the years 2021-2022, as evidenced by statistical tests showing a t-calculated value of 2.881, which is greater than the t-table value of 1.975 ( $2.881 > 1.975$ ), with a significance value of  $0.008 < 0.05$ . The expertise of BUMN board members in specific industry specializations is essential to optimizing strategic decision-making while maintaining GCG principles, leading to an improvement in GCG assessment.

CEO Narcissism has a significant effect on the increase of the GCG Score in State-Owned Enterprises (SOES) for the years 2021-2022, as evidenced by statistical tests showing a t-calculated value of 3.866, which is greater than the t-table value of 1.975 ( $3.866 > 1.975$ ), with a significance value of  $0.004 < 0.05$ . Narcissism among BUMN executives can influence stakeholder perceptions of the company, creating a positive image and increasing their trust in corporate policies and practices.

It should be noted that this study is limited to State-Owned Enterprises (SOES). The research period covers 2021-2022, with the inclusion criteria being SOES that have published an Annual Report in 2021-2022 and have conducted a GCG assessment in 2021-2022. Consequently, a total of 79 companies with 158 data samples were obtained.

### Suggestion

It is crucial for State-Owned Enterprises (SOES) to conduct an Internal Control Over Financial Reporting (ICOFR) evaluation for each company. ICOFR should be carried out by identifying potential weaknesses in the internal control system, evaluating existing monitoring procedures, and analyzing best practices to enhance compliance and transparency. SOES must pay closer attention to the selection and nomination process of board members.

SOES should ensure that board candidates possess the necessary qualifications, expertise, and integrity that align with the company's needs. The nomination process must be transparent and consider diversity, including differences in background, experience, and gender, to create a balanced board of directors that represents the interests of all stakeholders. The selection of board candidates should not be influenced by political considerations or personal relationships, which could undermine board independence.

SOES should consider several strategic steps when selecting board members. Choosing directors with a strong understanding of the industry in which BUMN operates can enhance the quality of strategic decision-making. BUMN needs to ensure that board members have backgrounds and expertise relevant to the company's industry dynamics. Board members with industry specialization can help formulate more effective strategies, identify business opportunities, and address potential challenges.

The selection of board members with a good reputation is a critical step in enhancing a company's Good Corporate Governance (GCG) Score. Board members with strong reputations tend to have high integrity, strong work ethics, and a commitment to corporate governance principles. As a result, the individual reputation of board members can influence the company's overall corporate culture, reinforcing compliance with regulations and standards that contribute to an improved GCG Score.

For future researchers, it is recommended to conduct studies in different industry subsectors, particularly during times of economic crises or other economic events, to determine whether the results remain consistent. Additionally, researchers should consider other possible factors that may influence the GCG Score, providing a more comprehensive analysis of corporate governance improvements.

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