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A Literature Review of the Relationship between State-Owned Enterprises and Political Power in a Neo patrimonial Economy

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Abstract

This article examines corporatocracy, a phenomenon where political and corporate power are intertwined in the Indonesian context, specifically the interrelationship between State-Owned Enterprises and political power within a neopatrimonial economic framework. Using a qualitative systematic literature review approach, this study examines the current literature on State-Owned Enterprises corruption. The analysis reveals that State-Owned Enterprises in Indonesia often serve as fertile ground for structural corruption. For example, public investment funds are often diverted to private pockets, while procurement mechanisms for goods and services are rife with bribery and nepotism. A closed bureaucratic culture that prioritizes patron-client relationships exacerbates this situation. The study compares various findings and confirms that the flow of bribery and collusion within SOEs leads to economic inefficiency and a loss of public trust. The implications of these findings highlight the need to strengthen oversight mechanisms, transparency, and institutional reform of State-Owned Enterprises. Recommendations for further research include empirical case studies on specific corporatocracies (e.g., in the energy or state finance sectors) and analyses of the effects of new State-Owned Enterprises policies to measure the effectiveness of corruption prevention measures at the structural level

Keywords

Corporatocracy, Systemic Corruption, State-Owned Enterprises, Political Economy, Neopatrimonialism, Public Procurement.

1. Introduction

Corruption has become a chronic problem in Indonesia, undermining the economic structure and public trust. In the context of the country's political economy, the close relationship between state officials and conglomerates is often referred to as corporatocracy, a situation in which public policy is influenced by business interests integrated with political power. State-owned enterprises (SOEs), as state-owned enterprises, are supposed to act as vehicles for development, but in practice, they often become fertile ground for corrupt practices. Jahja et al. (2023) noted that public funds intended for investment often end up in the pockets of greedy individuals, slowing the progress of infrastructure projects. Furthermore, bribery and nepotism are rampant within SOEs, influencing procurement of goods and services and licensing, thus undermining the principles of fair competition.

This phenomenon is further exacerbated by Indonesia's neo-patrimonial power system, which entrenches corruption within bureaucratic and corporate governance structures. Azimattara (2025) argues that political and administrative power in Indonesia is heavily concentrated within patron–client networks, creating a closed environment that prioritizes personal loyalty, political affiliation, and informal networks over merit-based governance. As a result, economic decision-making within state institutions, including state-owned enterprises (SOEs), is often shaped by personal relationships and dynastic political interests, weakening the effectiveness of formal oversight and institutional control mechanisms. Empirical evidence supports this argument, as corruption cases involving SOEs continue to show a consistent upward trend. Data from the Corruption Eradication Commission (KPK) reveal that between 2005 and 2019, at least 21 corruption cases involving SOEs were investigated, implicating 30 suspects, followed by the emergence of six additional cases in 2020. Notably, bribery and procurement manipulation dominate these cases, highlighting how neo-patrimonial power structures facilitate systemic corruption rather than isolated misconduct.

However, the existing literature still exhibits several important limitations. Most research on SOE corruption in Indonesia tends to be descriptive or based on case-based data, focusing on individual actors, state losses, and modus operandi without systematically linking them to broader political-economic power structures. Research by Putri and Sitabuana (2022) discusses financial management in SOEs, and research by Harianto (2025) examines state losses resulting from SOE losses. Studies discussing corporatocracy are generally placed within the global context or developing countries in general, and therefore have not specifically elaborated on how corporatocracy operates within the governance of Indonesian SOEs, which are characterized by distinctive bureaucracy and patrimonial politics. Previous research rarely integrates the perspectives of political economy, state-corporate governance, and the dynamics of neo-patrimonialism within a coherent analytical framework.

This gap highlights the need for a synthetic approach capable of mapping SOE corruption beyond individual deviations, but rather as a systemic phenomenon rooted in the structural relations between political power and corporate interests. Therefore, this study offers a contribution by compiling a systematic literature review that positions SOE corruption within the framework of corporatocracy and Indonesian political economy, in order to generate a more comprehensive understanding and formulate more contextual and sustainable policy implications.

2. Literature Review

2.1. State-Owned Enterprise Corruption

The literature on corruption in state-owned enterprises in Indonesia generally focuses on state-owned enterprise governance and law enforcement. Several studies

indicate that weak implementation of good corporate governance (GCG) principles is a major factor contributing to the high vulnerability to corruption in state-owned enterprises (SOEs) (Prabowo, 2014). Structural issues such as political interference in the appointment of directors and commissioners, low independence of supervisory boards, and formalistic internal oversight increase the potential for abuse of power. Research based on Corruption Eradication Commission (KPK) reports and court decisions found that the dominant modes of corruption include bribery, manipulation of goods and services procurement, and mark-ups on infrastructure projects (Jahja et al., 2023; KPK, 2021).

Several studies emphasize the ambiguous institutional position of state-owned enterprises (SOEs), which operate at the intersection of market-oriented business logic and state political interests. On one hand, SOEs are expected to pursue efficiency, competitiveness, and profitability similar to private corporations. On the other hand, they function as instruments of public policy and vehicles for the distribution of political and economic interests, including patronage and rent allocation (OECD, 2018). This dual mandate creates structural tensions and provides wide discretionary power to managerial and political elites, which is frequently exploited for personal or group benefit rather than public welfare. Empirical evidence further indicates that stronger regulation, governance reform, and intensified legal enforcement have not fully curtailed corruption in SOEs. This persistence suggests that corruption cannot be explained solely by weak compliance mechanisms or regulatory gaps. Instead, it is deeply rooted in entrenched political-economic power structures that shape strategic decisions, appointments, procurement processes, and resource allocation within SOEs. Consequently, approaches that focus narrowly on legal and managerial reforms tend to overlook the systemic nature of corruption embedded in broader networks of political and business interests (Butt et al., 2014).

However, a key limitation of this literature lies in its narrow analytical focus. Corruption in SOEs is predominantly framed as the result of individual misconduct or technical institutional weaknesses, such as poor governance or weak law enforcement. Broader political-economic power relations are rarely examined in a systematic manner, particularly the embedded role of political elites and corporate interests in shaping SOE decision-making processes. As a result, this governance-centered perspective struggles to adequately explain why corruption in SOEs persists, recurs across sectors, and exhibits systemic characteristics rather than isolated or incidental failures.

2.2. Corporatocracy, Neo-Patrimonialism, and the Political Economy

The political economy approach provides a structural lens for understanding corruption, particularly through the interconnected concepts of corporatocracy and neo-patrimonialism. The corporatocracy literature highlights how large corporate actors exert disproportionate influence over public policymaking by maintaining close and often informal relationships with political elites, thereby blurring the boundaries between state authority and business interests (Perkins, 2016; Robinson, 2010). Rather than functioning as neutral regulators, state institutions in such contexts frequently become arenas where corporate power is negotiated and institutionalized. In developing countries, these dynamics are further intensified by weak democratic institutions, limited accountability mechanisms, and the state's heavy reliance on private investment and capital inflows to sustain economic growth (Hutchcroft, 2014). As a result, policymaking processes tend to prioritize corporate and elite interests over public welfare, creating fertile conditions for systemic corruption. This structural dependence reinforces patronage networks and rent-seeking behavior, making corruption not merely a legal violation, but an embedded feature of the political-economic system.

Meanwhile, the concept of neo-patrimonialism explains how patrimonial practices such as patronage, clientelism, and personal loyalty operate within modern state structures. Studies in Indonesia show that the bureaucracy and state-owned enterprises (SOEs) are often used as arenas for the distribution of political patronage, both through the placement of strategic positions and the allocation of projects and economic resources (Hadiz & Robinson, 2013; Aspinall & Berenschot, 2019). Azimattara (2025) asserts that patron-client networks create a closed environment that weakens formal institutional controls and normalizes corrupt practices as part of the power mechanism.

Although the theoretical literature on corporatocracy and neo-patrimonialism is extensive, empirical studies that explicitly link these concepts to the governance of state-owned enterprises (SOEs) in Indonesia remain limited. Most existing research examines corporatocracy and neo-patrimonialism at a macro political level, focusing on national institutions, elite networks, or regime characteristics, without adequately analyzing how these power relations are translated into concrete SOE management practices. As a result, the mechanisms through which political influence, patronage, and corporate interests become embedded in SOE decision-making, procurement, and organizational control structures are often overlooked. This gap in the literature restricts a comprehensive understanding of SOE corruption, which is frequently treated as a collection of isolated cases rather than a structurally produced outcome. Therefore, integrating political economy, corporatocracy, and neo-patrimonialism perspectives is essential to conceptualize SOE corruption as a systemic phenomenon. Such an integrated approach allows corruption to be understood as rooted in enduring institutional arrangements and power asymmetries between political elites and corporate actors, rather than merely as individual misconduct or governance failure.

3. Methods

This study uses a systematic literature review (SLR) approach to gain a comprehensive understanding of state-owned enterprise corruption within the framework of corporatocracy and neopatrimonialism in Indonesia. The SLR method was chosen because it allows for systematic, transparent, and replicable compilation and synthesis of scientific findings. The review process involved a step-by-step literature selection process, starting with identification, initial screening, and feasibility assessment, ultimately determining relevant articles for further analysis. The literature search was conducted in several major academic databases, including Google Scholar, ScienceDirect, JSTOR, and the national journal portal Garuda. Keywords used included "corporatocracy," "Indonesian state-owned enterprise corruption," "Indonesian neopatrimonialism," and combinations of related terms reflecting the relationship between political power, economic interests, and state-owned enterprise governance. The search was conducted iteratively to ensure broad coverage of the literature and minimize the risk of missing important studies.

Inclusion criteria for this study included articles in Indonesian or English published in reputable scientific journals or proceedings. Selected studies must focus on state-owned enterprise corruption, political-business relations, or the characteristics of the neopatrimonial political economy in Indonesia. Each article was screened through an abstract and full text review to ensure its suitability to the research objectives. Non-academic literature, opinion articles, popular media reports, and studies discussing corruption in the private non-public sector were excluded from the analysis. Selected articles were analyzed using qualitative data extraction to identify recurring themes in the literature. This process focused on patterns and characteristics of corruption cases in state-owned enterprises, the mechanisms through which political and bureaucratic actors are involved, and the economic as well as institutional impacts of corrupt practices. In addition, the analysis examined

policy recommendations proposed by previous studies to address systemic corruption. The findings were then organized and interpreted through a narrative synthesis approach, allowing for the integration of evidence across multiple studies. This synthesis situates the results within Indonesia's specific institutional and political context, enabling a more comprehensive understanding of how structural governance issues shape corruption dynamics in state-owned enterprises. This SLR approach allows for cross-study comparisons to examine the consistency and differences in findings between studies. Furthermore, this method helps map research gaps in the literature on state-owned enterprise corruption and Indonesian political economy, which serves as a basis for developing the analysis and theoretical contributions of this study.

4. Results

4.1. Patterns and Characteristics of Corruption in State-Owned Enterprises

A review of the existing literature identifies several recurring patterns of systemic corruption in Indonesia that are closely associated with corporatocratic practices. One of the most prominent patterns is the relatively high frequency of corruption cases involving State-Owned Enterprises (SOEs), which tend to recur over time and follow similar mechanisms. Jahja et al. (2023) report that between 2005 and 2019, the Corruption Eradication Commission (Komisi Pemberantasan Korupsi/KPK) handled at least 21 corruption cases involving SOEs, with a total of 30 identified suspects. This trend did not subside in subsequent years, as evidenced by the emergence of six additional SOE corruption cases in 2020.

The majority of these cases were dominated by bribery and procurement fraud, particularly in the procurement of goods and services. These sectors are widely recognized as institutional loopholes that enable structural corruption, allowing private economic interests to influence public decision-making processes. Such practices reflect an entrenched pattern of collusion between political elites, bureaucratic actors, and corporate entities, where formal governance mechanisms are often subordinated to informal networks of power and economic exchange. Consequently, the persistence and consistency of corruption cases within SOEs suggest that corporatocracy in Indonesia is not merely a theoretical construct, but a tangible phenomenon manifested in legal enforcement records and public governance practices. This condition underscores the need to analyze corruption not only at the individual level, but also within the broader political-economic structure that sustains it.

Corruption mechanisms in state-owned enterprises (SOEs) commonly manifest through the diversion of investment funds and entrenched bribery practices, particularly within procurement processes. Jahja et al. (2025) argue that public funds originally intended for infrastructure development and the enhancement of SOE production capacity are frequently misappropriated for private gain by irresponsible actors. This diversion not only undermines the strategic objectives of SOEs but also distorts the allocation of public resources. In addition, bribery and nepotism have been systematically identified in the procurement of goods and services, occurring at multiple stages ranging from project planning and budgeting to the determination of tender winners. These practices are often facilitated by collusive relationships between SOE officials, private contractors, and political elites.

Similar corruption mechanisms are also evident in business licensing and regulatory approval processes involving state institutions, where political affiliation, patronage networks, and personal connections frequently outweigh merit-based and procedural considerations. Such conditions reflect persistent weaknesses in internal control systems, oversight mechanisms, and institutional accountability within SOEs. The consequences extend beyond direct financial losses to the state.

Corruption erodes operational efficiency, reduces competitiveness, and weakens the capacity of SOEs to function as commercially viable and development-oriented entities. More broadly, these practices hinder productive investment, raise transaction costs, distort market competition, and ultimately slow national economic growth, thereby undermining long-term development objectives.

4.2. Corporatocracy and Power Relations in SOE Corruption Practices

Political–economic relations constitute a fundamental determinant of corruption within state-owned enterprises (SOEs). Nurhasim (2021) and a wide range of legal and governance literature confirm that Indonesia’s bureaucratic structure continues to be strongly shaped by patron–client relations, where personal loyalty, kinship ties, and political affiliations frequently take precedence over professionalism and merit-based governance. Within this institutional context, SOE officials often appoint relatives, close associates, or political allies to strategic managerial and supervisory positions. Such practices foster what has been described as a “closed environment that prioritizes personal interests and colleague networks,” thereby weakening transparency and accountability in corporate decision-making processes. Consequently, both internal control mechanisms and external oversight institutions become ineffective, as conflicts of interest are embedded within the organizational structure itself. Oversight bodies may exist formally, but their capacity to function independently is undermined by informal power relations and reciprocal obligations. This condition aligns with findings from Transparency International (2017), which highlight that SOEs characterized by dominant government control and weak governance safeguards are particularly vulnerable to corruption risks. These vulnerabilities not only distort procurement, investment, and financial decisions, but also reduce operational efficiency and competitiveness. In the broader perspective, persistent corruption within SOEs constrains national economic growth, erodes public trust, and limits the ability of state enterprises to function as effective instruments of development policy.

A comparison between studies demonstrates consistent findings that SOE governance reform is a key prerequisite for curbing systemic corruption. Jahja et al. (2023) emphasize the importance of expanding transparency, strengthening oversight systems, and enforcing compliance to curb bribery and procurement manipulation. Their findings suggest that weak internal controls and fragmented accountability structures create opportunities for rent-seeking behavior within SOEs. Meanwhile, Husen (2024) highlights the need for fundamental changes to the political power structure surrounding state-owned enterprises (SOEs) to dismantle patronage networks and address chronic conflicts of interest between political elites and corporate management. This perspective underscores that corruption in SOEs is not merely a managerial failure, but is deeply embedded in broader political–economic relations. Several other studies, including reports by accounting bodies and organizations such as Transparency International (2017), propose strengthening new oversight mechanisms, including mandatory gratuity reporting, stricter anti-bribery policies, enhanced whistleblower protection, and comprehensive reforms to procurement procedures. These recommendations largely reflect global best practices in public sector governance. However, the existing literature remains dominated by descriptive analyses, case studies, and normative policy recommendations. Empirical research that systematically and in-depth examines the causal relationship between political–economic relations, governance structures, and corruption outcomes in SOEs remains relatively limited. This gap highlights the need for more rigorous analytical approaches, particularly those integrating political economy perspectives with quantitative or mixed-methods designs, thereby opening substantial space for further research.

5. Discussion

These literature findings confirm that the corporatocracy in Indonesia has entered a phase of systemic corruption at the state-owned enterprise (SOE) level. Unbalanced corporate-political interactions create a counterproductive moral climate (Prechel, 2022). For example, if procurement processes are controlled by certain networks, MSMEs and small independent parties struggle to participate, leading to collusion and monopolization of profits. In this regard, the theory of a neopatrimonial state is clearly evident: formal institutions such as the SOE General Meeting of Shareholders (RUPS) or the Corruption Eradication Commission (KPK) often overlap with the informal power of the president, ministers, or party politicians. Compared with other countries, the literature shows parallels with the phenomenon of state capture, where large corporations form alliances with politicians to exploit public funds. However, the Indonesian context, in particular, involves the legacy of the New Order and current political party dynamics, which have not been widely addressed in previous studies.

As an example of a relatively recent empirical finding, Hanoteau et al. (2021) uncovered the role of social capital in petty corruption practices by entrepreneurs in Indonesia. Although this study focused on MSMEs, the conceptual framework offered, particularly regarding economic actors' choices between using bribes or leveraging family networks and social connections, has analytical relevance for the SOE context. These findings suggest that corrupt practices are not solely determined by the scale of an organization, but also by the social mechanisms that underpin them. More broadly, social networks and patronage relationships can bridge the gap between small-scale corruption and institutional corruption (Bondeli et al., 2021; Khan, 2022; Wang, 2024). For example, a small businessman might bribe an official at a state-owned enterprise (SOE) to secure a local infrastructure project, while the SOE official simultaneously channels strategic contracts or policies to his cronies and political networks. This indicates the continuity of corruption mechanisms across economic and institutional levels.

The results of this analysis have important policy implications. First, the expansion and enforcement of anti-corruption sanctions at the SOE level must be strengthened, for example through independent audits, transparency in tender processes, and civil society engagement. Second, reforms to political and economic institutions are needed, for example, limiting the terms or roles of politicians in SOEs to reduce patronage. Improved governance of political parties and campaign funding could also reduce the need for politicians to exploit SOEs for personal gain. Overall, further research should focus on field studies: for example, case study analyses of critical industries (such as energy, ports, or mining) that qualitatively explore the political-SOE relationship; and exploratory studies of the impact of the 2020 Job Creation Law and the SOE Creation Law on corruption in the SOE sector.

6. Conclusion

This in-depth literature review shows that the corporatocracy in Indonesia has significantly contributed to the establishment of systemic corruption within state-owned enterprises (SOEs) through various informal political mechanisms. Numerous studies agree that SOEs, which should serve as the primary drivers of the national economy, are often trapped in bribery, collusion, and nepotism. Patron-client relationships between political and business actors create exclusive and closed power structures, making corruption difficult to detect and eradicate. This situation is exacerbated by weak formal institutional controls and the dominance of elite interests in SOEs' strategic decision-making processes.

To address these issues, the literature consistently recommends strengthening transparency, enhancing oversight mechanisms, and comprehensive public

institutional reform. Some innovative ideas that have emerged include digitizing procurement processes in SOEs to minimize face-to-face interactions that could potentially facilitate bribery, and establishing an independent forum to monitor SOE performance and governance. Furthermore, further research is recommended to develop empirical studies and cross-regional comparisons to test the extent to which the corporatocracy model operates in different contexts and to evaluate the effectiveness of anti-corruption policies specifically targeted at SOEs. It is hoped that this insight can become the basis for formulating more effective policy strategies in eradicating structural corruption in Indonesia.

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