

Reformulating The Governance Of Regional Owned Enterprise For Drinking Water Services: Improving Legal Protection In Water Services

¹Ridho Ribbon Hutapea, ²Muhammad Arya Wijaya, ³Tubagus Achmad Darojdat

^{1,2}Jayabaya University, ³Rajamangala University of Technology Krungthep

¹202302026207@pascajayabaya.ac.id, ²lawofficemuhammadaryawijaya@gmail.com,

³bagus2m@gmail.com

ABSTRACT

This research aims to analyze the governance of Regional-Owned Enterprises (BUMD) engaged in drinking water services. The focus of this research is the reformulation of BUMD governance to be in accordance with the principles of Good Corporate Governance (GCG) to ensure legal protection for the community. The method used in this research is a normative juridical approach, with reference to various relevant laws and regional regulations. The urgency of this research lies in the urgent need to improve BUMD governance, particularly in the aspects of transparency, accountability, and community participation, given the importance of access to proper drinking water as a basic human right. In addition, this study identifies a research gap in the form of a lack of in-depth studies on the implementation of GCG principles in the context of public services and legal protection in drinking water BUMDs, which has not been widely discussed in previous studies. The results show that the implementation of GCG in BUMD is still not optimal, especially in terms of financial management transparency and internal control. Governance reformulation is needed to improve the effectiveness of BUMDs in providing services that are in line with public standards, as well as strengthening legal protection mechanisms for consumers. This research contributes to providing practical recommendations for local governments to improve BUMD governance, as well as enriching the literature on local enterprise management that focuses on public services and consumer protection.

Keywords: BUMD Governance, Legal Protection, Good Corporate Governance, Drinking Water Services

Introduction

Drinking water is a basic human need that is essential for health and well-being (Li & Wu, 2019). In Indonesia, the responsibility of providing drinking water services is largely assumed by Regional-Owned Enterprises (BUMDs), in accordance with the mandate of Article 33 of the 1945 Constitution which emphasizes that water is a wealth controlled by the state and used to the greatest extent for the prosperity of the people (Karim et al., 2022; Wibowo, 2020). However, challenges in BUMD governance point to serious problems that hinder the provision of decent and equitable drinking water services (Budiono et al., 2020; Miranti, 2022; Umami et al., 2022). Data from the Ministry of Public Works and Housing (2020) revealed that 52 out of 387 BUMDs engaged in the water sector were declared unhealthy, which means that around 13% of the BUMDs have poor performance. This condition shows that there are still many BUMDs that experience inefficiency, high water leakage rates, and weak financial management, which leads to inadequate service quality for the community.

The urgency of this study is all the more apparent given the direct impact of failures in water service provision on community welfare and public health (Gaber et al., 2021; Miranti, 2022). Contaminated or inadequate water can cause serious health problems, while limited access to clean water can increase social inequality (Kristanti et al., 2022). With the strategic role of BUMDs in the provision of public services, it is imperative to ensure that corporate governance is conducted to a high standard, in particular by consistently applying

Good Corporate Governance (GCG) principles. Currently, many BUMDs have not been optimal in implementing GCG principles such as transparency, accountability, and public participation, thus creating gaps in legal protection for consumers who are entitled to quality services (Konadu et al., 2021; Redi & Victor, 2023; Yudisthira & Barthos, 2022).

The apparent research gap in the literature on BUMD governance in the water sector adds to the relevance of this study. While many studies highlight technical and economic issues related to BUMD management, very few go in-depth on the application of GCG to strengthen consumer legal protection and ensure a balance between business orientation and public service. Previous studies, such as by Suryadi (2018), focused more on inefficiency and mismanagement practices, without offering an integrated approach to governance improvement based on the GCG framework. Thus, the objective of this study is to analyze the implementation of BUMD governance in the water service sector, identify existing weaknesses, and develop recommendations for policy reformulation that can improve operational effectiveness and service quality. This research also aims to provide theoretical and practical contributions by filling the gap in the literature related to GCG implementation in the context of public services and legal protection, so that it can be a reference for local governments and BUMD managers in an effort to improve the quality of governance.

This research aims to analyze the implementation of governance of Regional-Owned Enterprises (BUMDs) in the field of drinking water services, particularly related to the application of Good Corporate Governance (GCG) principles and its influence on legal protection for consumers. The research also aims to identify constraints and challenges that hinder the effective implementation of GCG, including issues of transparency, accountability and community participation. Furthermore, this research develops recommendations for reformulating BUMD governance to improve operational effectiveness, quality of public services, and strengthen legal protection for consumers with a focus on improving internal control systems and risk management. In addition, this study aims to bridge the *research gap* related to the implementation of GCG in drinking water services by BUMDs, as well as provide theoretical and practical contributions to the literature and policies on the management of regional companies in the essential public service sector.

Methods Research

This research uses a normative juridical approach, which aims to analyze the application of Good Corporate Governance (GCG) principles in the governance of Regional-Owned Enterprises (BUMD) in the field of drinking water services, as well as how these principles affect legal protection for consumers. The normative juridical approach is carried out by examining laws and regulations, legal documents, and policies related to BUMD and consumer protection (Dwi Indriati et al., 2022; Gunawan, 2023; Taekema, 2018). The data used in this research consists of primary legal materials, such as laws and government regulations, as well as secondary legal materials, such as literature, journals, and results of previous studies. The analysis technique used is descriptive qualitative analysis, in which the data obtained is systematically arranged, analyzed, and interpreted to provide an overview of the implementation of GCG in BUMD management. In addition, this research also identifies weaknesses in the regulation and practice of BUMD governance and offers solutions through policy reformulation that focuses on improving transparency, accountability, and oversight.

Results and Discussion

This research emphasizes the importance of reformulating the governance of Regional-Owned Enterprises (BUMDs) in water services, especially given that data from the

Ministry of Public Works and Housing (2020) shows that 52 out of 387 BUMDs were declared "unhealthy." This illustrates the weak governance in many BUMDs that impacts on water services, an essential basic human need. This problem demonstrates the urgency to improve the governance system in accordance with the principles of Good Corporate Governance (GCG), to ensure quality service and legal protection for the public as consumers. The failure of BUMDs to implement good governance shows a large gap between theory and practice. In the theory of Legal Protection proposed by Philipus M. Hadjon, the government has the primary responsibility to protect human rights, including the right to clean water as a basic need (Husen et al., 2023; Perbawati & Evendia, 2021). This is where BUMD, as an extension of the local government, should be responsible in providing proper public services by following legal principles that ensure justice and legal protection for the community. However, reality shows that many BUMDs have not fully adopted GCG principles, especially in terms of financial transparency, management accountability, and community participation in decision-making.

The research gap found in this study lies in the lack of in-depth studies on how GCG can be effectively applied in the context of public service-oriented BUMDs. Previous research, such as that conducted by Suryadi (2018), mostly highlighted technical issues and mismanagement in BUMDs, but did not provide practical solutions based on GCG implementation to improve governance efficiency and strengthen consumer legal protection. This research seeks to bridge the gap by focusing on how GCG principles can help improve governance, promote transparency, and increase accountability in drinking water services by BUMDs. The Balance Theory proposed by Herlien Budiono is highly relevant in this context. The principle of balance emphasises the need for a balance between rights and obligations both on the part of BUMD as service providers and the community as consumers (Levin & McDowell, 1983). In practice, this imbalance is apparent when consumers are denied their right to safe drinking water as BUMDs fail to fulfil their obligations in effective service provision. The application of GCG principles can help create this balance by enforcing transparency, improving risk management, and ensuring that consumer rights are protected in accordance with applicable legal standards (Hendratni, 2019; Narastri, 2019).

Governance gaps seen in BUMDs lead to various operational issues, such as high-water leakage rates and difficulties in securing funding for infrastructure development. In addition, the lack of effective internal controls makes many BUMDs vulnerable to inefficiencies and potential financial losses, which ultimately impacts the quality of services to the public. This shows that without consistent GCG implementation, BUMD will not be able to optimally perform its function as a responsible public entity. GCG-based governance reformulation will not only improve operational efficiency, but also strengthen supervisory mechanisms and legal protection for consumers. This is in line with Otto von Gierke's Organ theory, which places BUMD as a state organ that must act in accordance with public law and be responsible in every corporate action for the welfare of society (Conte, 2024; McGaughey, 2018). Therefore, the urgency of reformulating BUMD governance is very high. Not only to ensure that BUMDs can function as efficient public service providers, but also to ensure that communities receive the legal protection they need and deserve in access to drinking water. This reformulation will also help address BUMD's internal challenges such as low transparency, weak accountability, and lack of public participation in decision-making, all of which are essential to creating a more equitable and sustainable service delivery system.

Conclusion

The conclusion of this study shows that the governance of Regional-Owned Enterprises (BUMDs) in the field of drinking water services still faces major challenges,

especially in terms of the application of Good Corporate Governance (GCG) principles. Many BUMDs have not optimised transparency, accountability and public participation, leading to inadequate water services and weak legal protection for consumers. The urgency of this governance reformulation is even clearer given the importance of BUMDs in fulfilling the basic needs of the community, namely access to decent drinking water. By applying GCG principles more consistently, BUMDs can improve operational efficiency, strengthen internal controls, and provide better legal protection to consumers, as well as address the existing *research gap* related to local company governance in the public sector. This reformulation is important to ensure a balance between public interest and BUMD business performance, in accordance with the principles of justice and welfare mandated by law.

Suggestion And Recommendation

Suggestions and recommendations from this research are that Regional-Owned Enterprises (BUMDs) immediately reformulate governance by adopting the principles of Good Corporate Governance (GCG) more thoroughly and consistently. Local governments as owners of capital and supervisors of BUMDs should strengthen internal supervision, transparency and accountability in the management of BUMDs, especially in the drinking water service sector which is a basic need of the community. In addition, BUMDs should increase public participation in decision-making, so that the public can be more involved and have their rights as consumers protected. Practical recommendations proposed include the establishment of stricter oversight mechanisms, risk management training for BUMD managers, as well as the enforcement of a transparent audit system. It also requires a strong commitment from the local government to support better governance and ensure that BUMD policies are not only orientated towards profitability, but also towards improving the quality of public services and the general welfare of the community.

Reference

- Budiono, I., Bakri, Moch., Fadli, Moh., & Koeswahyono, I. (2020). Regulating Equitable Water Resources Governance in Indonesia. *Journal of Arts and Humanities*, 9(6).
- Conte, E. (2024). Legal Pluralism from History to Theory and Back: Otto von Gierke, Santi Romano, and Francesco Calasso on Medieval Institutions. *Law and History Review*, 42(2). <https://doi.org/10.1017/S0738248023000159>
- Dwi Indriati, E., Ana, S., & Nugroho, N. (2022). Philosophy Of Law And The Development Of Law As A Normative Legal Science. *International Journal of Educational Research & Social Sciences*, 3(1). <https://doi.org/10.51601/ijersc.v3i1.293>
- Gaber, N., Silva, A., Lewis-Patrick, M., Kutil, E., Taylor, D., & Bouier, R. (2021). Water insecurity and psychosocial distress: Case study of the Detroit water shutoffs. *Journal of Public Health (United Kingdom)*, 43(4). <https://doi.org/10.1093/pubmed/fdaa157>
- Gunawan, Y. (2023). Legal Research Perspective through Problem Solution Approach. *International Journal of Science and Society*, 5(2). <https://doi.org/10.54783/ijssoc.v5i2.705>
- Hendratni, T. W. (2019). Impact of Good Corporate Governance Implementation and Risk Management on Bank Performance and Corporate Values. *IOSR Journal of Business and Management*, 21(6).
- Husen, L., Anwar, A. I., Rahman, S., & Hidjaz, M. K. (2023). Implementation Of Legal Guarantees For Human Rights Protection In Indonesia. *Journal of Law and Sustainable Development*, 11(4). <https://doi.org/10.55908/sdgs.v11i4.624>
- Karim, A., Desi, N., & Ahmad, A. (2022). Regional Public Water Company Business Plan for Sustainable Economic in Makassar City, Indonesia. *Specialusis Ugdyamas / Special Education*, 1(43).

- Konadu, R., Ahinful, G. S., & Owusu-Agyei, S. (2021). Corporate governance pillars and business sustainability: does stakeholder engagement matter? *International Journal of Disclosure and Governance*, 18(3). <https://doi.org/10.1057/s41310-021-00115-3>
- Kristanti, R. A., Hadibarata, T., Syafrudin, M., Yilmaz, M., & Abdullah, S. (2022). Microbiological Contaminants in Drinking Water: Current Status and Challenges. In *Water, Air, and Soil Pollution* (Vol. 233, Issue 8). <https://doi.org/10.1007/s11270-022-05698-3>
- Levin, J., & Mcdowell, B. (1983). The Balance Theory of Contracts: Seeking Justice in Voluntary Obligations. *McGill Law Journal*, 29.
- Li, P., & Wu, J. (2019). Drinking Water Quality and Public Health. *Exposure and Health*, 11(2). <https://doi.org/10.1007/s12403-019-00299-8>
- McGaughey, E. (2018). Otto von Gierke: The Social Role of Private Law. *German Law Journal*, 19(4). <https://doi.org/10.1017/S207183220002294X>
- Miranti, S. (2022). The Measuring the Efficiency and Productivity of Regional Water Utility Company (PDAM) in Indonesia from 2012 to 2016. *Jurnal Perencanaan Pembangunan: The Indonesian Journal of Development Planning*, 6(1). <https://doi.org/10.36574/jpp.v6i1.278>
- Narastri, M. (2019). 15 Pillars of Islamic Good Corporate Governance for The Corporate Level. <https://doi.org/10.4108/eai.30-7-2019.2287546>
- Perbawati, C., & Evendia, M. (2021). Legal Protection of Ulayat Rights: Contextualization and Policies. <https://doi.org/10.4108/eai.5-8-2019.2308554>
- Redi, A., & Victor, J. (2023). The Impact of Good Corporate Governance Implementation on Crime Prevention in State-Owned Enterprises. *Proceedings of the 3rd Multidisciplinary International Conference, MIC 2023, 28 October 2023, Jakarta, Indonesia*. <https://doi.org/10.4108/eai.28-10-2023.2341804>
- Taekema, S. (2018). Theoretical and Normative Frameworks for Legal Research: Putting Theory into Practice. *Law and Method*. <https://doi.org/10.5553/rem/.000031>
- Umami, A., Sukmana, H., Wikurendra, E. A., & Paulik, E. (2022). A review on water management issues: potential and challenges in Indonesia. *Sustainable Water Resources Management*, 8(3). <https://doi.org/10.1007/s40899-022-00648-7>
- Wibowo, A. (2020). *The Development of Regionally Owned Enterprises (BUMD) in Indonesia*. <https://doi.org/10.2991/aebmr.k.200513.090>
- Yudisthira, E., & Barthos, M. (2022). Legal Analysis on the Implementation of Good Corporate Governance in State Owned Enterprises. *Proceedings of the First Multidiscipline International Conference, MIC 2021, October 30 2021, Jakarta, Indonesia*. <https://doi.org/10.4108/eai.30-10-2021.2315859>