Analysis of Internal Procurement Regulatory Compliance in State Owned Enterprise Subsidiaries with the Principles of Fair Business Competition and Business Law Risks

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Abstract

This study aims to analyze the compliance of internal procurement regulations implemented by subsidiaries of Indonesian State-Owned Enterprises (SOEs) with the principles of fair business competition and to identify the business law risks arising from non-competitive procurement practices. The research is motivated by the growing implementation of SOE synergy policies through direct appointment mechanisms and preferential cooperation among affiliated enterprises, which have attracted scrutiny from the Indonesia Competition Commission due to their potential to create market discrimination and impede fair competition. The research addresses two principal issues: the extent to which internal procurement regulations of SOE subsidiaries comply with the principles of fair business competition and the forms of business law risks resulting from such non-compliance. This study employs a normative legal research method using statutory, conceptual, and case approaches. The data were collected through a comprehensive literature review of legislation, scholarly publications, and relevant media reports. The findings indicate that the implementation of internal procurement regulations within SOE subsidiaries has not fully complied with the principles of transparency, openness, and fair competition, as procurement practices continue to demonstrate a preference for affiliated SOE entities. Such practices create significant business law risks, including administrative sanctions, legal disputes, reputational damage, and potential business inefficiencies. This study recommends harmonizing internal procurement regulations with competition law principles while strengthening procurement oversight mechanisms and enhancing transparency across the SOE sector.

***Keywords**:* State-Owned Enterprise Procurement, Fair Business Competition, Business Law Risk, Regulatory Compliance, State-Owned Enterprise Subsidiaries

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3rd International Conference Epicentrum of Economic Global Framework (ICEEGLOF)
Theme: Cross-Sector and Cross-Disciplinary Strategies for Achieving the SDGS
https://proceeding.pancabudi.ac.id/index.php/ICEEGLOF

Introduction

The transformation of the governance of Indonesian State-Owned Enterprises (SOEs) over recent years has been directed toward enhancing operational efficiency, competitiveness, and business synergies among SOEs and their subsidiaries. This policy framework seeks to strengthen the strategic role of SOEs not only as instruments of national economic development but also as competitive business entities capable of operating effectively in the global market. Nevertheless, amid these efforts to reinforce intra-group collaboration, significant legal concerns have emerged regarding the compliance of internal procurement regulations implemented by SOE subsidiaries with the principles of fair business competition. This issue is particularly significant because procurement activities extend beyond considerations of business efficiency and encompass broader legal values, including transparency, accountability, fairness, and legal certainty in national economic governance. [1]

From a normative perspective, the procurement of goods and services within SOEs and their subsidiaries is governed by a combination of internal corporate regulations and ministerial regulations issued by the Ministry of State-Owned Enterprises. One of the most prominent regulatory instruments is the Regulation of the Minister of State-Owned Enterprises Number PER-2/MBU/3/2023 concerning Guidelines on Corporate Governance and Significant Corporate Activities of State-Owned Enterprises. [2] In practice, this regulation permits direct appointments involving fellow SOEs, SOE subsidiaries, and SOE-affiliated companies, provided that the procurement process satisfies justifiable standards of quality, pricing, and procurement objectives. Such a policy is intended to strengthen internal synergies within the SOE corporate group. However, it has also attracted criticism because it may create entry barriers for business actors operating outside the SOE ecosystem. [3]

The Indonesia Competition Commission (Komisi Pengawas Persaingan Usaha—KPPU) has publicly expressed concerns that the direct appointment mechanism under the SOE procurement framework may give rise to unfair business competition. In 2024, the KPPU formally addressed a letter to the Minister of State-Owned Enterprises regarding alleged procurement practices that were considered capable of restricting market competition. Specifically, the Commission argued that Article 155 paragraph (2) letter (j) of Ministerial Regulation Number PER-2/MBU/3/2023 potentially creates discriminatory treatment toward business entities outside the SOE ecosystem by granting preferential treatment through direct appointments to SOE-affiliated entities. [4] This situation illustrates the inherent tension between the government's policy of promoting SOE synergy and the principles of fair business competition established under Law Number 5 of 1999 concerning the Prohibition of Monopolistic Practices and Unfair Business Competition. [5]

The issue becomes increasingly complex considering that SOE subsidiaries conduct commercial activities in competitive markets comparable to those of private enterprises. On one hand, SOE subsidiaries benefit from their structural affiliation with parent SOEs, enabling them to obtain greater access to internal procurement projects. On the other hand, such preferential access may result in market discrimination, conflicts of interest, and allegations of bid rigging where procurement processes are not conducted openly and competitively. Previous legal studies on competition law and direct appointment mechanisms within SOE synergies have demonstrated that procurement policies prioritizing SOE subsidiaries may weaken market competition and reduce opportunities for other business entities to participate fairly in procurement activities. [6]

Empirical evidence further indicates increasing public scrutiny of procurement practices within SOEs and their subsidiaries. Media reports published by *Tempo* revealed that the KPPU identified indications of anti-competitive procurement practices involving SOEs and urged the government to re-evaluate the direct appointment mechanism, which was considered capable of restricting market competition. Moreover, policy analyses published by various national

media outlets have emphasized that the dominance of SOE subsidiaries in internal procurement processes may generate unequal market access for private-sector enterprises, particularly small and medium-sized enterprises (SMEs), despite their ability to compete effectively. [7]

From the perspective of business law, inadequate compliance with the principles of fair competition may expose SOEs and their subsidiaries to substantial legal risks. These risks include administrative sanctions imposed by the KPPU, civil litigation arising from discriminatory procurement practices, reputational damage, and potential financial losses to the state where procurement activities are conducted inefficiently or without adequate transparency. [8] Such legal risks ultimately affect not only corporate performance but also public confidence in the governance of SOEs as institutions entrusted with managing state assets while fulfilling both commercial and public service functions.

Within the framework of the rule of law and good corporate governance, the principles of transparency, accountability, fairness, and fair competition should constitute the fundamental basis of every procurement process. Compliance with internal procurement regulations should therefore not be understood merely as administrative conformity but also as adherence to the principles of competition law and sound business ethics. Accordingly, procurement mechanisms implemented by SOE subsidiaries should ensure equal treatment for all market participants without granting preferential advantages that may distort competition.

Against this background, this study seeks to examine the extent to which the internal procurement regulations of SOE subsidiaries comply with the principles of fair business competition and to identify the business law risks arising from procurement practices that fail to uphold competitive principles. The study is expected to contribute both theoretically and practically to the development of a procurement governance framework that is transparent, equitable, and fully aligned with the principles of fair business competition within SOEs and their subsidiaries.

Literature Review

1. The Concept of Legal Compliance in Internal Corporate Regulations

Legal compliance fundamentally refers to the adherence of legal subjects to applicable legal norms, regulations, and principles in conducting business operations and corporate administration. In the context of modern corporations, compliance extends beyond mere formal observance of legal rules and reflects a corporate governance culture that promotes transparency, accountability, and integrity. For State-Owned Enterprises (SOEs) and their subsidiaries, legal compliance occupies a particularly significant position because their business activities are not solely profit-oriented but also involve the management of state assets and the protection of public interests.

Internal procurement regulations constitute one of the principal governance instruments employed by corporations to ensure the efficiency and effectiveness of procurement activities. Nevertheless, such internal regulations must remain consistent with higher-ranking legal instruments, particularly competition law and the principles of good corporate governance. Any inconsistency between internal corporate policies and national legal principles may generate legal disputes, especially where procurement policies grant preferential treatment to specific entities without ensuring a fair and competitive procurement process.

According to Compliance Theory, corporate compliance with legal regulations is influenced by two principal dimensions: normative factors and instrumental factors. Normative factors relate to corporate legal awareness and ethical commitment to complying with legal rules, whereas instrumental factors concern the existence of legal sanctions that discourage non-compliance. [9] Within the procurement practices of SOE subsidiaries, both dimensions are highly relevant because procurement decisions are shaped not only by commercial considerations but also by the risks of administrative sanctions and reputational damage arising from violations of the principles of fair business competition.

Furthermore, the theory of Good Corporate Governance (GCG) identifies transparency, accountability, responsibility, independence, and fairness as the fundamental principles of sound corporate management. [10] In the procurement of goods and services, the principle of fairness is closely linked to fair competition, requiring that all business entities be provided with equal opportunities to participate in procurement processes without discriminatory treatment. The implementation of business licensing and regulatory compliance mechanisms within state-owned entities further reinforces this principle, as corporate governance frameworks must align with applicable administrative and competition law requirements. [34]

2. The Theory of Fair Business Competition

air business competition refers to a market condition in which all business actors are afforded equal opportunities to compete openly and honestly based on the quality of their products or services, pricing strategies, and business capabilities. This concept was developed to preserve the integrity of market mechanisms by preventing monopolistic practices, discriminatory conduct, and abuses of dominant market positions that may harm competing businesses and consumers.

In Indonesia, the principles of fair business competition are governed by Law Number 5 of 1999 concerning the Prohibition of Monopolistic Practices and Unfair Business Competition**.** The law stipulates that business activities must maintain an appropriate balance between the interests of business actors and the broader public interest. Fair competition is intended not only to protect small and medium-sized enterprises but also to promote national economic efficiency. [11]

From the perspective of competition law theory, a policy may constitute unfair competition where it contains elements of market discrimination, creates barriers to market entry, or grants exclusive privileges to particular groups of business entities. [12] Within the procurement practices of SOE subsidiaries, potential violations of competition principles arise when direct appointment mechanisms are predominantly awarded to affiliated companies without an open and competitive selection process. Such practices may effectively exclude private-sector enterprises from market participation despite their comparable qualifications and capabilities.

Modern competition theory further emphasizes the principle of equal opportunity in public and corporate procurement systems. Every business entity should have an equal opportunity to participate in procurement or tender procedures without interference arising from structural relationships or corporate affiliations. [13] Accordingly, procurement activities undertaken by SOE subsidiaries should be conducted in a professional and competitive manner to prevent perceptions of concealed monopolistic practices within the SOE corporate group.

3. The Theory of Business Law Risk

Business law risk refers to the possibility of financial or non-financial losses resulting from a company's failure to comply with applicable legislation, contractual obligations, or established legal principles. Such risks may include administrative sanctions, civil liability, financial losses, reputational damage, and diminished confidence among investors and other stakeholders. [14]

Within modern corporate governance, legal risk management constitutes a fundamental component of enterprise risk management. For SOEs and their subsidiaries, legal risks possess broader implications because they directly involve the management of public assets and are subject to heightened public scrutiny. Non-compliance with competition law principles in procurement activities may lead to allegations of monopolistic practices, conflicts of interest, or bid-rigging, thereby exposing companies to investigations and sanctions imposed by the Indonesia Competition Commission (KPPU).

According to Legal Risk Management Theory, corporations are required to identify, assess, mitigate, and continuously monitor business policies that may give rise to legal violations. [15] In the context of procurement within SOE subsidiaries, legal risks may be mitigated through the implementation of transparent procurement procedures, internal compliance audits, and effective oversight mechanisms aimed at preventing conflicts of interest throughout the procurement process.

Beyond administrative and financial consequences, violations of fair competition principles may significantly undermine public trust in the governance of state-owned enterprises. As institutions entrusted with managing state capital, the credibility and legitimacy of SOEs depend substantially upon their commitment to transparency, accountability, and professionalism in conducting business operations. Consequently, compliance with fair competition principles extends beyond formal legal obligations and encompasses broader considerations of corporate legitimacy, ethical business conduct, and public accountability.

4. The Concept of Procurement of Goods and Services in SOE Subsidiaries

The procurement of goods and services represents a strategic corporate function because it directly influences operational efficiency and the long-term sustainability of business activities. Within SOEs and their subsidiaries, procurement possesses not only commercial significance but also broader implications for public service delivery and the responsible management of state financial resources.

The SOE synergy policy introduced in recent years has encouraged greater collaboration among SOEs and their subsidiaries through mechanisms such as direct appointments and preferential inter-company cooperation. The primary objective of this policy is to strengthen national economic capacity while improving efficiency throughout the SOE business value chain. [16] Nevertheless, the implementation of such policies must remain consistent with the principles of fair business competition to avoid discriminatory treatment against business entities operating outside the SOE ecosystem.

From the perspective of business law, sound procurement practices should be governed by the principles of efficiency, transparency, openness, fair competition, and accountability. [17] These principles serve as essential safeguards against collusion, nepotism, abuse of authority, and other forms of procurement misconduct. Accordingly, the internal procurement regulations adopted by SOE subsidiaries should be designed proportionately to facilitate corporate synergy while preserving a genuinely competitive procurement environment that provides equal opportunities for all qualified market participants.

Research Methodology

This study employs a normative legal research method using three complementary approaches, the statutory approach, the conceptual approach, and the case approach. The normative legal method was selected because the research focuses on analyzing the compliance of the internal procurement regulations of State-Owned Enterprise (SOE) subsidiaries with the principles of fair business competition, as well as the business law risks arising from the implementation of such procurement policies. The statutory approach is applied to examine the consistency and harmonization between the internal procurement regulations governing SOEs and their subsidiaries and Indonesia's competition law framework, particularly Law Number 5 of 1999 concerning the Prohibition of Monopolistic Practices and Unfair Business Competition and the Regulation of the Minister of State-Owned Enterprises Number PER-2/MBU/3/2023 concerning Guidelines on Corporate Governance and Significant Corporate Activities of State-Owned Enterprises**.** Meanwhile, the conceptual approach is employed to examine the legal doctrines and scholarly concepts relating to legal compliance, fair business competition, Good

Corporate Governance (GCG), and business law risk as developed in legal theory and academic literature. [18]

In addition, this study adopts a case approach through the examination of several procurement practices and SOE synergy policies that have attracted public attention, received extensive coverage in national media, and become subjects of supervision by the Indonesia Competition Commission (KPPU). The case analysis is intended to assess how the implementation of internal procurement regulations within SOE subsidiaries may create barriers to market competition and generate business law risks in practice. Accordingly, the research extends beyond doctrinal legal analysis by incorporating empirical developments that characterize the contemporary Indonesian business environment. [19]

The study relies exclusively on secondary data, consisting of primary, secondary, and tertiary legal materials. Primary legal materials include Law Number 5 of 1999 concerning the Prohibition of Monopolistic Practices and Unfair Business Competition**,** the Regulation of the Minister of State-Owned Enterprises Number PER-2/MBU/3/2023 concerning Guidelines on Corporate Governance and Significant Corporate Activities of State-Owned Enterprises, together with other relevant legislation governing procurement, corporate governance, and business activities. Secondary legal materials comprise peer-reviewed journal articles, legal textbooks, scholarly publications, research reports, and other academic works relevant to the research topic. Tertiary legal materials include legal dictionaries, legal encyclopedias, and other reference sources that assist in clarifying legal terminology and concepts applied throughout the study. [20]

Data were collected through library research, involving a systematic examination of legislation, legal documents, scholarly publications, academic journals, and relevant media reports associated with the research subject. This method was intended to develop a comprehensive understanding of the relationship between the internal procurement regulations of SOE subsidiaries, the principles of fair business competition, and the resulting business law risks. Within this research, media publications serve as supporting evidence to illustrate factual developments and contemporary procurement practices, particularly cases that have attracted public attention and regulatory scrutiny by the KPPU. [21]

The collected data were analyzed qualitatively using a descriptive-analytical method. This approach involved systematically examining applicable legal provisions, legal theories, and factual circumstances relevant to the research object before evaluating their legal relationships and practical implications within the procurement activities of SOE subsidiaries. The analysis was conducted in a logical and systematic manner to address the research questions concerning the extent of compliance of internal procurement regulations with the principles of fair business competition and the business law risks arising from non-compliance with those principles. Through this analytical framework, the study aims to provide comprehensive legal arguments and formulate recommendations for strengthening procurement governance within State-Owned Enterprises and their subsidiaries in accordance with the principles of transparency, accountability, and fair competition. [22]

Results

1. Compliance of Internal Procurement Regulations of SOE Subsidiaries with the Principles of Fair Business Competition

The procurement policies adopted by subsidiaries of State-Owned Enterprises (SOEs) are fundamentally designed to enhance operational efficiency, strengthen business synergies, and maintain the stability of supply chains among state-owned enterprises. In practice, these procurement activities frequently rely on internal cooperation mechanisms and direct appointments involving fellow SOEs and their subsidiaries. Such practices derive their legal basis from the Regulation of the Minister of State-Owned Enterprises Number PER-2/MBU/3/2023, which permits procurement synergies within the SOE corporate group,

provided that the principles of efficiency, accountability, and corporate governance are appropriately maintained.

Nevertheless, the findings of this study demonstrate that the implementation of internal procurement regulations within SOE subsidiaries has not yet fully reflected the principles of fair business competition. In several procurement practices, there is a clear tendency to prioritize SOE-affiliated companies without conducting an open and competitive selection process. This practice creates unequal market access for other business entities, particularly private-sector companies possessing comparable qualifications, expertise, and capabilities. Consequently, the principle of fairness within procurement governance cannot be fully realized. [23]

Fundamentally, the principle of fair business competition requires that all business entities be afforded equal opportunities to participate in economic activities through open, transparent, and non-discriminatory procedures. Within the context of procurement, this principle is implemented through procurement mechanisms that are transparent, accountable, and competitively conducted. However, the SOE synergy policy, as currently implemented, has the potential to restrict market competition by granting preferential treatment to companies belonging to the same corporate group. [24]

This concern has been explicitly highlighted by the Indonesia Competition Commission (Komisi Pengawas Persaingan Usaha—KPPU)**,** which has scrutinized several procurement policies implemented within SOEs on the grounds that they may restrict market competition. According to the KPPU, the extensive use of direct appointment mechanisms favoring SOE-affiliated entities has the potential to violate the principles of fair business competition because it creates market discrimination and limits access for competing business actors. From the perspective of competition law, such practices may constitute barriers to market entry for enterprises operating outside the SOE ecosystem. [25]

In addition to concerns regarding market discrimination, weak compliance with fair competition principles is also reflected in the limited transparency observed in certain procurement processes. In several instances, supplier evaluation procedures have not been conducted openly, making it difficult to determine whether affiliated companies were selected on the basis of objective considerations such as quality, efficiency, and value for money, or merely because of their structural relationship with the parent SOE. Such circumstances inevitably generate public perceptions that procurement governance within SOE subsidiaries has not fully implemented the principles of Good Corporate Governance (GCG). [26]

From the perspectives of administrative law and business law, internal corporate regulations undoubtedly play an essential role in governing corporate operations. Nevertheless, such internal regulations must not conflict with higher-ranking legislation, including statutory provisions prohibiting monopolistic practices and unfair business competition. Accordingly, procurement policies implemented by SOE subsidiaries must consistently uphold the principles of fair competition as an integral component of professional, accountable, and equitable corporate governance. [27]

Based on the foregoing analysis, it can be concluded that the compliance of internal procurement regulations within SOE subsidiaries with the principles of fair business competition continues to face significant legal and governance challenges. Although internal synergy policies are intended to improve corporate efficiency, their implementation has not been accompanied by sufficiently robust mechanisms for oversight, accountability, and transparency. Consequently, greater harmonization between internal procurement regulations and competition law principles is required to ensure that SOE synergy policies do not evolve into discriminatory procurement practices that disadvantage other market participants.

2. Business Law Risks Arising from the Non-Compliance of SOE Subsidiaries' Procurement Practices with the Principles of Fair Business Competition

Failure to comply with the principles of fair business competition in the procurement activities of SOE subsidiaries gives rise to a wide range of business law risks that may directly affect corporate sustainability. These risks extend beyond formal legal sanctions and encompass economic losses, reputational damage, and declining public confidence in the governance of State-Owned Enterprises.

One of the most immediate legal risks is the possibility of administrative sanctions imposed by the Indonesia Competition Commission (KPPU**)**. Under Law Number 5 of 1999 concerning the Prohibition of Monopolistic Practices and Unfair Business Competition, business entities found to have engaged in monopolistic practices or anti-competitive conduct may be subject to administrative fines, annulment of agreements, and orders requiring the cessation of specific business activities. Within the context of SOE subsidiary procurement, the disproportionate use of direct appointment mechanisms may be regarded as discriminatory conduct that restricts market competition. [28]

In addition to administrative sanctions, non-compliance with competition law principles may expose companies to civil litigation initiated by business entities that have been denied a fair opportunity to participate in procurement processes. Such claims may arise where procurement procedures are conducted in a closed, non-transparent manner or where preferential treatment is granted exclusively to affiliated companies. Litigation of this nature may impose substantial financial burdens on companies through legal expenses, compensation claims, and disruptions to normal business operations. [29]

Beyond formal legal liability, procurement practices perceived as lacking transparency also create significant reputational risks. In an era characterized by increasing public access to information, procurement decisions that appear opaque or discriminatory are likely to attract extensive media attention and public scrutiny. Where the public perceives that SOE subsidiaries prioritize the interests of affiliated entities over the principles of fairness and equal competition, confidence in corporate governance inevitably declines. Such reputational deterioration may adversely affect relationships with investors, business partners, government stakeholders, and the wider public. [30]

Another significant business law risk concerns the potential financial loss to the state arising from non-competitive procurement practices. Fair competition is generally recognized as promoting greater efficiency, improved pricing, and higher-quality goods and services. Conversely, procurement conducted primarily through closed procedures or direct appointments without adequate competition increases the likelihood of budget inefficiencies, excessive procurement costs, and suboptimal allocation of public resources. Within the SOE sector, such practices may undermine the statutory role of SOEs as professional and accountable managers of state assets. [31]

The findings of this study further indicate that weaknesses in internal oversight constitute one of the principal factors contributing to heightened legal risks within SOE subsidiary procurement. In several corporations, compliance audits and procurement evaluation mechanisms have not been implemented effectively, making it difficult to identify and address potential conflicts of interest at an early stage. Effective internal control systems are therefore indispensable for ensuring that procurement decisions remain consistent with applicable legal requirements and the principles of Good Corporate Governance. [32] In this regard, alternative dispute resolution mechanisms such as med-arbitration represent an important avenue for resolving industrial and procurement conflicts in a manner consistent with Indonesian legal principles. [33] The enforcement of consumer protection and legal accountability standards in business transactions further underscores the need for transparent and compliant procurement governance. [35] At the same time, labor rights compliance and corporate accountability in employment arrangements within SOE subsidiaries constitute dimensions of broader corporate

legal compliance that must be upheld alongside procurement governance. [36] Consumer legal protection frameworks similarly require that corporate procurement and distribution practices adhere to established legal standards in order to maintain public trust and market integrity. [37] Furthermore, the fulfillment of fundamental rights within state institutions, including health service rights, reflects the broader obligation of SOEs and their subsidiaries to uphold constitutional and statutory rights in all aspects of their operations. [38] Property rights disputes and customary law considerations also form part of the legal landscape that SOE subsidiaries must navigate in ensuring lawful and equitable business conduct. [39] [32

Accordingly, mitigating business law risks requires strengthening procurement governance through the implementation of procurement systems that are transparent, competitive, and non-discriminatory. SOE subsidiaries should establish procurement mechanisms that guarantee equal opportunities for all qualified business entities while reinforcing the role of internal audit functions throughout every stage of the procurement process. Furthermore, harmonizing internal procurement regulations with the principles of competition law represents an essential step toward ensuring that SOE synergy policies can continue to support corporate efficiency without compromising market fairness, legal certainty, or sound corporate governance.

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Conclusion

1. The compliance of the internal procurement regulations of State-Owned Enterprise (SOE) subsidiaries with the principles of fair business competition has not yet been optimally achieved in practice. Although the SOE synergy policy, which permits direct appointments to affiliated companies, is intended to improve operational efficiency and strengthen the SOE business ecosystem, its implementation continues to present the risk of discriminatory treatment toward business entities operating outside the SOE sector. This is primarily because procurement processes have not been consistently conducted in an open, transparent, and competitive manner. These findings indicate that internal procurement regulations require greater harmonization with the principles of fair business competition and Good Corporate Governance to ensure that the pursuit of business efficiency does not undermine market fairness, legal certainty, or equal business opportunities.
2. Non-compliance with the principles of fair business competition in the procurement activities of SOE subsidiaries gives rise to significant business law risks that directly affect both corporate sustainability and the broader public interest. These risks include the possibility of administrative sanctions imposed by the Indonesia Competition Commission (KPPU), legal actions initiated by disadvantaged business entities, reputational damage, and potential inefficiencies in the utilization of corporate assets and financial resources. Accordingly, it is essential to strengthen internal oversight mechanisms, implement procurement procedures that are more transparent, accountable, and competitive, and harmonize internal corporate regulations with the principles of competition law. Such measures are necessary to ensure that procurement activities within SOE subsidiaries are conducted professionally, fairly, and in a manner that promotes a healthy and competitive business environment in Indonesia.

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