Good Global Supply Chain Governance, Corruption, and Welfare: An Empirical Evidence from Indonesia

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Abstract— Social welfare can only be realized if local governments have good global supply chain governance and low corruption. This research aims to prove the effect of good global supply chain governance and corruption on welfare. This research was conducted on all provincial governments in Indonesia in 2014-2018. Good global supply chain governance was measured using the Indonesia Governance Index published by The Partnership for Governance Reform, corruption is measured through corruption cases carried out by public officials in each province published by the KPK-RI (Indonesia's Corruption Eradication Commission), while welfare was measured by the Human Development Index published by BPS-RI (Indonesia's Central Bureau of Statistics). The analysis was done through multiple regression testing. The results show that (1) the implementation of good global supply chain governance, corruption and social welfare in local governments in Indonesia is still bad; (2) local governments with high human development index and high government index cannot guarantee a low level of corruption; (3) good global supply chain governance is evidence to significantly improve welfare; (4) corruption has actually been shown to significantly improve welfare. This finding proves the importance of good global supply chain governance for local governments to accelerate the improvement of social welfare. Besides, the impact of corruption on welfare in this study is interesting.

Keywords— global supply chain, good governance, corruption, welfare

1. Introduction

The granting of regional autonomy through fiscal decentralization and regional authority is aimed to provide regions the flexibility in regional development to improve social welfare [1]. The implementation of autonomy has consequences for local governments, namely the obligation to improve the services and welfare of the community in a fair, equitable, and sustainable manner [2]. Welfare is crucial to be realized by the regional government because it is an important

objective in developing local government [3]. Social welfare will increase the rate of economic growth region [4]. Besides, social welfare will increase financial indicators; will improve aspects of strong law enforcement, strong regulation, and political stability; will increase outflow of government funds especially in the education and health sector; and also decrease the percentage of poverty [5][6][7].

To realize equitable and sustainable social welfare, local governments must apply good global supply chain governance and minimize corruption [8]. According to Sebudubudu [8], good global supply chain governance principles will have an impact on the effectiveness and efficiency of government performance that will then increase welfare through the Human Development Index (HDI). Corruption causes obstacles to growth, development, and prosperity of society in many countries.

The Indonesian welfare in 2016 was ranked 113 out of 188 countries, below Singapore, Brunei Darussalam, Malaysia, and Thailand [9]. While the good global supply chain governance of local governments in Indonesia as reported by the partnership agency [10] is still bad, with the average value of the Indonesia Governance Index (IGI) of local governments in Indonesia in 2014 was only 5.67 with the largest index owned by DIY Province at 6.80 and the lowest index owned by North Maluku Province at 4.41. Meanwhile, Indonesia's 2017 corruption perception index is ranked 96th below Singapore, Brunei Darussalam, and Malaysia (Transparency International Indonesia) [11]. The high level of corruption in Indonesia is caused by poor governance in Indonesia. To overcome this problem, the government is trying to implement bureaucratic reform through improving the principles of GGG developed by **BAPPENAS** and National Committee of Governance Policy [12][13]. This shows that the implementation of good global supply chain governance and corruption prevention in Indonesia has not been effective enough to realize social welfare.

Several researchers have tested good governance and corruption on welfare. The results

[8][14][15][16] show that good governance is eviden to significantly improve welfare. In contrast, [12][13] found that decentralization increases the probability of corruption. Fairness, transparency, and responsiveness cannot reduce corruption. Corruption inhibits the growth, development, and social welfare in several countries. Corruption in the government will affect the low level of investment which causes a decrease in the economy and high unemployment. According to Albassam [15], good governance is measured using the World Governance Index (WGI) issued by the World Bank to measure the quality of governance. Meanwhile, according to [12][13][17], good governance is measured through the Principal Component Analysis (PCA) method.

[18][19][20] found that corruption has a negative and significant effect on social welfare. While, Huang [21] found that corruption will increase economic growth in South Korea. Whereas in China, there is a positive causality of economic growth on corruption. Besides, Anderson (2015) [22] found that statistically GDP growth did not have a significant relationship to corruption. Besides, Blackburn and Powell [23] revealed that corruption in the short term will negatively impact economic growth in real, but corruption in a long period has a positive impact on economic growth.

Previous research examined relationship of accountability, transparency and corruption in Indonesia [13]. Fiorino [24] examined fiscal decentralization, corruption, and the quality of government governance. Liu and Lin [25] examined accountability on the level of corruption. [18][19][26] examined the relationship between the corruption perception index and the human development index. The novelty of this research is that we unite the variables of good governance, corruption, and welfare in one model. After all, in this study, good governance variable was taken as a whole and was measured through the Governance Index [8][14][16] and the corruption variable was measured by corruption cases by public officials in each province [27][28][29][30].

2. Literature Review and Hypothesis Development

This research is based on stakeholder theory. According to Ghazali and Chariri [29], stakeholder theory is a theory which states that companies are not entities that only operate for their interests, but must also provide benefits to all stakeholders. According to Gray [30], stakeholders are parties interested in a company or organization that can influence or can be influenced by the activities of a company or organization,

stakeholders such as the community, employees, government, suppliers, capital markets and others.

The use of stakeholder theory in this research is based on the argument that as an organization, the local government must be able to provide benefits in the form of welfare to the stakeholders (including local government and the community). To accelerate the realization of welfare for stakeholders, an effort that can be carried out by the government is by implementing good governance and also suppressing corruption practices [8][14][15][16][18][19][20].

Based on Government Regulation No. 101 of 2000 [44], good governance is a government that develops and establishes the principles of professionalism, accountability, transparency, democracy, efficiency, excellent service, effectiveness, rule of law and can be accepted by the whole community. According to the Regulation of the Minister of Administrative and Bureaucratic Reform number: PER /15 /M.PAN/7/2008 [31] concerning General Guidelines for Bureaucratic Reform, the purpose of good governance is to create a clean, efficient, effective, productive, transparent, serving the public and accountable. The Governance Index is a very comprehensive measurement of governance performance published by The Partnership for Governance Reform. The overall index figure is a composite of the four areas of governance, namely government, bureaucracy, civil society, and economic society. The four areas are measured based on the extent to which important functions are carried following the principles good governance, participation, accountability, fairness, transparency, efficiency and effectiveness [8][14][15].

Based on Law Number 31 of 1999, corruption is unlawful activities to privately enrich a person or a corporation, abuse the authority, opportunities or means of their position which can harm the country's finances or the country's economy. Klitgaard [32][33] stated that corruption is caused by the monopoly of power over goods and services without balancing accountability. Sharma and Arup [34] mentioned that corruption inhibits the growth, development, and social welfare in many countries. According to Presidential Regulation No. 55 of 2012 [35], concerning the National Strategy for Corruption Prevention and Eradication, the main indicators of success of Corruption Prevention and Eradication at the national level are measured using the Corruption Perception Index [18][19][20][21] [23]. Meanwhile, according to [27] [29][30] Zhou and Tao and Wu and Rui corruption is measured through corruption cases committed by public officials in each province.

The Law of the Republic of Indonesia No.11 of 2009 [36] explains that welfare is a system of life also social, material, and spiritual

living encompassed by a sense of safety, decency and peace of mind that assure citizen to make the best effort to fulfill physical needs, spiritual and social for themselves, family and society by considering human rights and human obligations in accordance with Pancasila. According to UNDP [37], in its serial publication since the early 1990s, welfare are measured by the Human Development Index [8][14][18][19], economically, the welfare of a country is measured through various instruments such as economic growth, per capita income and human development index.

Good Governance and Human Development Index

According to Chariri [29], an organization is not an entity that only operates for its own interests but must also provide benefits to stakeholders. Local government is an organization formed with a specific purpose. One of the objectives of forming a regional government is to create prosperity for the community (Law Number 23 of 2014). To accelerate the realization of welfare, one of the strategies is the implementation of good governance by local governments [8]. This, according to the Regulation of the Minister of State Administrative Reform Number: PER/15/M.PAN/7/2008 concerning General Guidelines for Bureaucratic Reform of the State Minister for Administrative Reform, aims to create efficient, effective, transparent, accountable, and productive bureaucracy that can serve the community. The implementation of good governance in government is expected to have an impact on improving social welfare [8].

Keser and Gokmen's research [14] found that good governance is eviden to significantly improve Human Development. Albassam [15] stated that good governance has a significant, strong and positive correlation to Gross Domestic Product. Sebudubudu [8] revealed that there is a positive relationship between good governance and the Human Development Index in Botswana. Similarly, Ottervik [16] proved that there is a very strong relationship between good governance and Human Development, especially in the aspect of effectiveness in the public sector (government). On the other hand, according to Rahayuningtyas and Setyaningrum [12][13], decentralization increases probability of corruption. Fairness, transparency, and responsiveness cannot reduce corruption. Sharma and Arup [34] stated that corruption inhibits the growth, development, and prosperity of the people in various countries because corruption in the government will affect the low level of investment which causes the decrease of the economy and high unemployment.

Based on the explanation above, then the hypothesis can be formulated as follows:

H1 :good governance has a positive effect on the human development index

Corruption and Human Development Index

According to Law Number 31 of 1999 [38], corruption is harmful to the country's finances or the country's economy. Indonesia is one of the most corrupt countries in the world, with the corruption perception index in 2017 is ranked 96 below Singapore, Brunei Darussalam and Malaysia (Transparency International Indonesia). The high level of corruption in Indonesia is caused by poor governance in Indonesia. To overcome this problem, the government is trying to implement bureaucratic reform by improving the principles of GGG developed by BAPPENAS and KNKG. Good governance is believed to reduce the level of corruption [39]. Decreasing the level of corruption will have an impact on improving the economy and prosperity because according to Sharma and Arup [34], corruption inhibits the growth, development, and prosperity of the people in various countries.

Akcay [18], stated that corruption is a very serious problem that has a serious impact on the improvement of the social economy and the human development index. Akhter [19] found that corruption is eviden to reduce the human development. Qizilbash [20] proved that corruption is negatively related to human development. However, Huang [21] found that corruption can increase economic growth in South Korea. Whereas in China, there is a positive causality of economic growth on corruption. On the other hand, Anderson [22] found no significant relationship between GDP growth and corruption. Blackburn and Powell [23] revealed that corruption in the short term will negatively impact economic growth in real, but corruption in the long period has a positive impact on economic growth.

Based on the explanation above, the hypothesis is then formulated as follows:

H1: corruption has a negative effect on the human development index

3. Methods

This research used 34 provinces in Indonesia for the 2014-2018 period. We use purposive sampling with criteria (1) the provincial government which has the value of the Indonesia Governance Index (IGI) from The Partnership for Governance Reform in the period 2014-2018; (2) the provincial government which has a corruption case in the 2014-2018 period; and (3) the provincial government which has HDI values from BPS-RI in the 2014-2018 period. Good governance is measured through the Governance [8][14][15]. Corruption is measured through corruption cases carried out by public officials in each province [27][28], while welfare is measured through the Human Development Index. The Governance Index data is collected from The Partnership for Governance Reform

(www.kemitraan.or.id,). The data on corruption cases conducted by public officials in each province are gathered from the KPK-RI. The data of the Human Development Index are obtained from BPS-RI. The analysis used is multiple linear regression. However, the classical assumption must be tested first to ensure that the resulting regression model is accurate, unbiased and consistent. The regression model for this research is as follows:

$HDI = a + b_1IGI + b_2CP + e$

HDI = Human Development Index

IGI = Indonesia Governance Index

a = Constanta

CP = Corruption

b1,b2 = Regression Coefficient

= Error

4. Results

Descriptive statistical results of good governance, corruption, and social welfare in the provincial government in Indonesia for the period 2014-2018 can be seen in the following table:

Table1
Descriptive Statistics

		Minim Maxim		Std.	Mea
	N	um	um	Deviation	n
Good	17				
governance	0	4.45	6.80	1.12	5.53
	17				
Corruption	0	0.00	37.00	5.30	2.32
	17				69.1
Welfare	0	56.75	80.47	4.15	7

Source: Processed Data, 2019

The table above shows that the provincial government with the highest government index value is Yogyakarta (6.80) followed by East Java (6.43) and DKI Jakarta (6.37) while the provincial government with the lowest government index value is North Maluku with an index value of 4.45. In general, the implementation of good governance in the provincial government in Indonesia is still classified as "bad" with the average value of the government index of the provincial government in Indonesia is only 5.53. In 2018, the provincial government with the highest level of corruption is East Java with 37 cases of corruption. On average, during the observation period, the province with the highest level of corruption was East Java with 78 cases of corruption, North Sumatra with 52 cases corruption and West Java with 47 cases of corruption. Provincial governments with the lowest levels of corruption are Bangka Belitung Islands, Yogyakarta, North Kalimantan, West Kalimantan, Gorontalo, West Sulawesi, Sulawesi Province,

North Maluku and West Papua with no cases of corruption occurred in each of these provinces. The highest welfare measured by HDI is in the Province of DKI Jakarta at 80.47 in 2018 while the lowest HDI is in Papua Province at 56.75. The HDI average value of the provincial governments in Indonesia is 69.17 (medium). On average, during the observation period, the provinces with the highest HDI were DKI Jakarta with a value of 79.50 and DI Yogyakarta with a value of 78.24. This finding supports Khairudinet.al's research [41] which states that the welfare of the community in 146 district/city governments in the Sumatera Region is categorized as medium. It turns out that local governments with high HDI and good government index also have a quite high level of corruption such as DKI Jakarta with IGI value of 6.37, HDI value of 79.50, and 31 corruption cases; and North Sumatra which have IGI values of 5.94 and HDI value of 70.03, and 52 corruption cases. This shows that in the provincial government in Indonesia, good governance and a high level of welfare cannot guarantee a low level of corruption.

This research has tested classical assumptions on all research variables with the results passing the classical assumption test. The results of the hypotheses testing for good governance, corruption, and welfare are in the following table:

Table2

Hypothesis Testing Results									
	Coeffi	t_stat		Adjust	Concl				
Hypothesis	cient	istic	Sig	ed R	usion				
Good									
governance and			0.0		Suppo				
Welfare	1.113	4.074	00	0.085	rted				
Corruption and			0.0		Reject				
Welfare	0.117	1.955	52	0.016	ed				

Source: Processed Data, 2019

From table 2, it shows that good governance has a positive and significant influence on welfare, so the first hypothesis is supported. This finding supports the which found that good governance can significantly increase HDI; good governance has a significant, strong and positive correlation to Gross Domestic Product. This happens because organizations that implement good governance will produce a clean, efficient, effective, productive, transparent, and accountable bureaucracy to serve the public. Therefore, government work programs will be oriented to the improvement of social welfare. In addition, Good governance is believed to reduce the level of corruption because the achievement of good governance in the public sector is shown by a state administration system without corruption. According to Sharma and Arup [34] corruption inhibit the growth, development, and prosperity of the people in various countries. However, the results of this study contradict the research of [12][13] which state that decentralization as an

element of good governance increases the probability of corruption. Fairness, transparency, and responsiveness cannot reduce corruption.

Besides, this study found that corruption has a positive and significant influence on welfare which means that the second hypothesis is rejected. This finding is consistent with the results of [21] Huang found that corruption can increase economic growth in South Korea. Whereas in China, there is a positive causality of economic growth on corruption. Anderson [22] found no significant relationship between GDP growth and corruption. This is because corruption, in the short term, will increase the income to meet needs and will then increase the economy. In addition, according to [42][43] corruption will facilitate the bureaucracy, so that all affairs with the bureaucracy will run smoothly. As a result, all business activities will also run smoothly. The tactical funds for bureaucrat leaders are sometimes needed to accelerate the process of implementing activities. But in the long run, the high level of corruption in a country can also lead to a high-cost economy that can inhibit economic growth. However, these findings do not support the researches by [34] which states that corruption can reduce HDI; and corruption is a cause of obstacles to the growth, development, and prosperity of the people.

5. Conclusion

From this research, we conclude that (1) the implementation of good governance, corruption and social welfare in the provincial government in Indonesia is still bad; (2) good governance is eviden to significantly improve welfare; (3) corruption has actually been shown to significantly improve welfare. Besides, we recommend that (1) the central government provides rewards and also punishment to local governments for performance related to good governance, corruption and welfare; (2) the central government reforms law institutions to create and enforce the law; strengthen the rule of law and revise regulations that still provide gaps for corrupt corruption.

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