



Impact of Governance Mechanisms on Financial Accountability Transparency and Economic Performance in State-Owned Enterprises

Tuti Dharmawati ¹*, Muhammad Faiz Muldjabar ²

¹ Universitas Halu Oleo

² UIN Maulana Malik Ibrahim Malang

*Corresponding author E-mail: tuti_balaka@yahoo.co.id

Received: December 24, 2025, Accepted: January 22, 2026, Published: February 4, 2026

Abstract

This study examines the influence of governance mechanisms on financial accountability, transparency, and economic performance in State-Owned Enterprises (SOEs). The objective of the research is to analyze how governance practices, such as internal controls, audits, and independent board oversight, influence financial reporting and the performance of SOEs. This study employs a literature review methodology, drawing upon books, academic journals, and reports related to SOE governance. As a result, the findings are based on secondary sources, limiting the empirical originality of the study. The research reveals that while effective governance mechanisms enhance transparency and accountability, challenges such as weak enforcement and political interference impede full implementation. The study concludes that consistent enforcement of governance practices, independent audits, and strong board oversight are critical for improving the performance and transparency of SOEs.

Keywords: Governance Mechanisms; Financial Accountability; Economic Performance.

1. Introduction

State-Owned Enterprises (SOEs) play a vital role in driving national economic growth, particularly in developing countries where they are often central to critical sectors such as energy, transportation, telecommunications, and finance. Despite their significant contributions to the economy, many SOEs continue to face challenges related to financial management and governance. One of the most prominent issues is the lack of transparency in financial reporting and weak accountability mechanisms in the management of public funds. This lack of transparency can lead to inefficiencies, corruption, and poor financial decision-making, which ultimately affects the economic performance of SOEs. Moreover, when SOEs fail to be transparent in their financial dealings, it can undermine public trust, reduce investor confidence, and prevent these organizations from achieving their full potential. As entities under government control, SOEs are expected to uphold high standards of financial accountability and transparency. However, despite numerous reforms and regulatory frameworks aimed at improving governance, persistent problems in these areas remain, undermining the overall efficiency and impact of SOEs on national economies[1].

A significant body of literature highlights the importance of good governance mechanisms in enhancing the financial transparency and accountability of organizations, including SOEs. Research has consistently demonstrated that the implementation of robust governance mechanisms, such as internal controls, external audits, and risk management frameworks, can significantly improve financial reporting quality, reduce the risk of fraud, and ensure the responsible use of public resources. Several studies suggest that proper governance can mitigate financial mismanagement and improve the operational efficiency of SOEs. However, the literature also reveals a gap between theory and practice. While many scholars emphasize the theoretical benefits of sound governance, these mechanisms are not always effectively applied in practice. Several studies have found that, despite the presence of governance structures, challenges such as inadequate enforcement, a lack of accountability, and political interference persist, hindering the effectiveness of these governance practices. As a result, SOEs continue to struggle with issues of financial opacity and weak accountability, and the gap between theoretical frameworks and real-world application remains a significant challenge in achieving the desired outcomes of governance reforms[2].

Given the ongoing challenges related to financial accountability and transparency in SOEs, this study seeks to explore the specific impact of governance mechanisms on these issues. The primary aim of this research is to investigate how various governance mechanisms—such as internal audits, external oversight, risk management, and the role of management in financial decision-making—can improve financial transparency, strengthen accountability, and enhance the overall economic performance of SOEs. In particular, this study will examine how effective governance can influence the quality of financial reporting and the decision-making processes within SOEs, ultimately contributing to more efficient and transparent operations. Furthermore, this research will explore how these governance practices affect the broader economic performance of SOEs, with a particular focus on their ability to contribute to economic growth, increase operational

efficiency, and provide public goods and services more effectively. The findings from this research are expected to offer valuable insights into the governance practices that can optimize the performance of SOEs and contribute to sustainable economic development[3]. Based on the realities outlined and the objectives of the study, it can be argued that the implementation of robust and transparent governance mechanisms plays a critical role in improving both financial accountability and economic performance in SOEs. This study hypothesizes that, while various governance reforms have been proposed and partially implemented in SOEs, their consistent and effective application is often lacking. Without the full commitment to transparency and accountability, many SOEs will continue to face challenges in financial management and performance. The hypothesis suggests that the introduction of comprehensive governance frameworks, when implemented effectively, will significantly improve financial reporting, reduce financial mismanagement, and ultimately lead to better economic outcomes for SOEs. This research will investigate the underlying factors that contribute to the success or failure of governance mechanisms in SOEs and explore ways in which these can be optimized to enhance both financial accountability and the economic performance of SOEs. Thus, this study aims to fill a crucial gap in the literature by providing empirical evidence on how governance mechanisms can be more effectively applied in SOEs to achieve the desired improvements in transparency, accountability, and performance[4].

2. Literature Review

2.1. Literature review and integration

This literature review aims to provide a deeper understanding of the relationship between governance mechanisms and financial accountability, transparency, and economic performance in State-Owned Enterprises (SOEs). The existing literature covers several critical dimensions, including governance, accountability, transparency, and the performance of SOEs. Most studies suggest that effective governance mechanisms, such as internal controls, external audits, and risk management, can enhance transparency and accountability, which in turn support better financial and economic performance. However, significant challenges remain in implementing these governance mechanisms, including political interference and weak enforcement, which affect their effectiveness.

2.2. Critical synthesis of existing literature

- **General Consensus:** A substantial body of literature agrees that effective governance mechanisms—such as strong internal controls, independent external audits, and management oversight—can improve transparency in financial reporting and increase accountability within SOEs. Some studies also show that SOEs governed well tend to have better economic performance, such as higher operational efficiency and a greater contribution to national economic growth.
- **Diverging Findings:** Despite the theoretical advantages of good governance, there are variations in its practical implementation. Some studies highlight that strong political influence and a lack of commitment to full implementation often hinder the effective application of governance practices. For example, some SOEs struggle with political interference, which leads to decisions that prioritize political agendas over financial goals. On the other hand, other studies emphasize the importance of external oversight and independent boards in ensuring financial integrity and accountability.
- **Unresolved Issues:** There are still unresolved issues regarding the misalignment between theoretical governance frameworks and their practical application. There is an urgent need to strengthen enforcement mechanisms and ensure strong government commitment to implementing governance reforms. Additionally, the issue of a lack of skilled professionals in key governance roles remains a critical concern that needs to be addressed.

2.3. Unique contribution of this paper

This paper makes a unique contribution by integrating various governance mechanisms in the context of SOEs and explaining how their implementation can holistically improve financial transparency, accountability, and economic performance. Unlike previous reviews that tend to focus on one aspect of governance mechanisms, this paper combines the analysis of internal controls, external audits, risk management, and independent oversight as interrelated components that together improve SOE performance. Furthermore, this paper also emphasizes the importance of continuous evaluation and monitoring of governance practices to ensure their relevance in the face of evolving economic and political conditions.

2.4. Inclusion of recent studies (2023–2024)

Some highly relevant and recent studies on governance, such as the work by Dzaga et al. (2023), which discusses governance for sustainable SOEs in South Africa, and Carreira (2021), which examines accountability and transparency policies in state-owned enterprises in Spain, offer valuable insights into the challenges and opportunities in implementing effective governance in SOEs. Integrating these recent studies into the literature review will enrich the understanding of current dynamics in SOE governance and the relevance of best practices that can be adopted across different countries.

Overall, the existing literature indicates that while good governance mechanisms have a significant positive impact on the financial transparency and accountability of SOEs, challenges in their application—especially related to political influence and weak enforcement—remain major barriers that need to be addressed to enhance SOE performance comprehensively.

3. Method

3.1. Research object

This study focuses on the analysis of governance mechanisms within State-Owned Enterprises (SOEs) and their impact on financial accountability, transparency, and economic performance. The main issue under investigation is the persistent lack of transparency and accountability in the financial management of SOEs, despite the implementation of governance reforms. These challenges are particularly evident in SOEs operating in sectors critical to the national economy, such as energy, transportation, and telecommunications. The

phenomenon being explored is the gap between theoretical governance frameworks and their practical application in SOEs, where weak enforcement, political interference, and insufficient oversight often undermine the effectiveness of governance practices. This study examines how governance mechanisms—such as internal and external audits, risk management, and management oversight—can address these issues and improve the overall performance of SOEs[5].

3.2. Type of research

This research is of a library research type, relying heavily on the review of secondary data collected from existing literature. The primary data source consists of relevant literature that discusses the issues identified in the research, such as transparency, accountability, and governance mechanisms in SOEs. These sources include books, academic journals, and previous studies that explore these topics from various perspectives. Secondary data includes additional literature that provides context to the research, including reports, articles, and publications on the broader concepts of governance, financial accountability, and economic performance in state-controlled enterprises. The literature reviewed is focused on the theoretical frameworks surrounding corporate governance and its practical implications for improving SOE performance, with a particular emphasis on financial management and transparency[6].

3.3. Theoretical foundations

The theoretical foundation of this research is based on several well-established theories of corporate governance. One key theory is the Agency Theory (Jensen & Meckling, 1976), which emphasizes the relationship between principals (the government or shareholders) and agents (SOE managers), with a focus on resolving the conflict of interest that arises from the delegation of authority. Agency Theory provides a useful framework for understanding the importance of governance mechanisms in ensuring that SOE managers act in the best interests of the public or shareholders, promoting transparency and accountability. Another relevant theory is Stewardship Theory (Davis, Schoorman, & Donaldson, 1997), which posits that managers in organizations, when given the right structure, can act as stewards who seek to achieve organizational goals and align their interests with those of stakeholders. These theories help guide the examination of governance mechanisms and their role in improving SOE performance. Additionally, Institutional Theory (DiMaggio & Powell, 1983) provides insight into how organizational practices and structures in SOEs are influenced by external pressures, such as regulations and public expectations, which can affect their financial accountability and transparency[7].

3.4. Research process (data collection techniques)

The research process involved a thorough review of existing literature related to the governance mechanisms in SOEs and their impact on financial accountability and performance. The data collection technique used in this study is primarily based on reading and analyzing written sources, including books, academic journals, research papers, articles, reports, and other relevant publications. These sources were selected based on their relevance to the research objectives, which focus on the role of governance in improving transparency, accountability, and economic performance in SOEs. The data collection process involved reviewing both theoretical and empirical studies, drawing insights from international and domestic cases of SOEs, and comparing them to understand the broader trends and challenges in the field. The literature reviewed provided a comprehensive understanding of the governance mechanisms implemented in SOEs and how these mechanisms can be leveraged to improve financial management and performance[8].

3.5. Data analysis technique

The data analysis technique used in this research is content analysis, which involves studying and interpreting the collected data to identify patterns, relationships, and key insights. Content analysis allows for the systematic examination of textual data, providing a method to quantify and analyze the presence of specific themes or concepts within the literature. This technique was applied to categorize and synthesize the information found in the reviewed sources, identifying commonalities and differences across studies related to governance mechanisms, financial accountability, and performance outcomes in SOEs. The goal of content analysis is to uncover the underlying patterns that may help explain the effectiveness of governance mechanisms and how they influence SOE performance. By analyzing the data through content analysis, the study aims to draw meaningful conclusions that can contribute to a deeper understanding of the relationship between governance and SOE performance[9].

4. Result and Discussion

4.1. Result

The research highlights the critical link between governance mechanisms and the financial accountability, transparency, and performance of State-Owned Enterprises (SOEs). A detailed review of existing literature shows that effective governance practices, including internal controls, external audits, and risk management, contribute positively to enhancing accountability and transparency within SOEs. These mechanisms help ensure efficient use of public resources, minimizing risks of corruption and financial mismanagement. Specifically, robust internal controls and frequent audits improve the reliability of financial reporting, which fosters public and stakeholder trust. However, challenges persist in consistently implementing governance measures across all SOEs.

The literature also emphasizes the necessity of political will and strong enforcement for successful governance reforms. Despite the adoption of governance frameworks by many SOEs, political interference and lack of commitment often hinder full implementation. In some cases, political involvement in decision-making compromises transparency and accountability, leading to conflicts of interest. Effective governance practices require a unified effort from all levels of government to ensure proper enforcement and adherence to best practices.

Additionally, the study finds that governance mechanisms are key to enhancing the economic performance of SOEs. Well-governed SOEs operate more efficiently, leading to better financial results and greater contributions to national economic growth. Effective governance streamlines decision-making, reduces inefficiencies, and improves overall productivity. Moreover, SOEs with strong governance are more likely to attract investment and maintain positive relationships with external stakeholders, reinforcing their market position and long-term sustainability.

However, the research indicates that the benefits of governance mechanisms are not equally experienced by all SOEs. Disparities exist in the application of governance practices across sectors and regions. For example, SOEs in highly regulated sectors such as energy and telecommunications tend to have stronger governance frameworks than those in less regulated industries. These variations stem from different levels of oversight, market competition, and external pressure faced by organizations.

The study further explores the link between governance mechanisms and financial accountability. Transparent financial reporting is closely tied to the strength of governance structures. SOEs with robust governance are more likely to produce accurate and timely financial statements, ensuring public funds are used responsibly. This transparency is vital in building public trust and preventing resource misuse. The involvement of independent boards and external auditors is crucial for maintaining financial reporting integrity.

Another key finding is the role of risk management within governance mechanisms. Effective risk management allows SOEs to identify and mitigate risks that may impact financial performance. By incorporating risk management into governance, SOEs are better equipped to handle economic fluctuations, market disruptions, and other challenges, thus safeguarding financial stability and long-term viability.

The study also stresses the importance of ongoing monitoring and evaluation of governance practices to ensure their continued effectiveness. Although many SOEs have implemented governance reforms, their success depends on continuous assessment and adaptation to changing conditions. Regular reviews allow organizations to identify areas for improvement and make necessary adjustments, ensuring the relevance of governance practices amid evolving economic, political, and technological environments.

Lastly, fostering a culture of accountability within SOEs is essential. An organizational culture that prioritizes ethics, transparency, and responsibility strengthens the success of governance mechanisms. When employees across all levels commit to upholding governance principles, the overall effectiveness of these practices improves, building greater trust and cooperation among stakeholders and contributing to the long-term sustainability of SOEs.

3.2. Discussion

1) The Role of Governance Mechanisms in Enhancing Financial Accountability

The study clearly demonstrates that effective governance mechanisms significantly contribute to improving financial accountability within State-Owned Enterprises (SOEs). Governance mechanisms, such as internal controls, external audits, and risk management frameworks, ensure that financial operations are conducted transparently, efficiently, and in alignment with public expectations. Strong internal controls help safeguard against mismanagement of funds and ensure that SOEs meet their financial obligations. In addition, external audits, conducted by independent bodies, enhance the credibility of financial reporting and help ensure that public funds are used properly. The integration of risk management within governance structures is crucial in identifying and mitigating financial risks, allowing SOEs to operate more efficiently and reduce financial irregularities.

However, despite the theoretical advantages of governance mechanisms, the literature reveals that in practice, there are still gaps in the implementation of these measures in SOEs. Political interference and lack of commitment to full implementation often hinder the effectiveness of governance mechanisms. In some instances, the pressure from political figures or government officials leads to decisions that prioritize political interests over financial accountability, leading to inefficient use of public resources. These challenges underscore the need for stronger enforcement mechanisms that ensure compliance with governance standards, regardless of external pressures. In this context, ensuring financial accountability requires a holistic approach that includes not only good governance practices but also a commitment to transparency and independence from political influence.

Moreover, the literature suggests that independent oversight, including external audits and independent boards, plays a crucial role in reinforcing financial accountability. By ensuring that decision-making processes are scrutinized by impartial entities, these governance structures help prevent corruption and promote responsible financial management. These measures also contribute to a culture of accountability within the organization, as employees and management are aware that their actions are subject to external review. This sense of oversight encourages ethical behavior and reduces the likelihood of financial mismanagement, ultimately improving the financial health and reputation of SOEs.

Additionally, the integration of risk management into governance structures is essential for improving financial accountability. Effective risk management practices enable SOEs to identify potential financial pitfalls and take proactive measures to mitigate them. For example, risk management frameworks help in anticipating fluctuations in market conditions, regulatory changes, or other factors that may affect financial stability. By addressing these risks proactively, SOEs can maintain financial stability, protect public funds, and reduce the likelihood of financial crises. Therefore, governance mechanisms that incorporate risk management are crucial for ensuring long-term financial accountability and sustainability in SOEs.

Literature: It illustrates the potential impact of governance mechanisms on financial accountability in State-Owned Enterprises (SOEs), including performance metrics before and after implementation, as well as implementation challenges. Please note that this table is a hypothetical example and should be viewed as an illustration, not as empirical findings.

Governance Mechanism	Key Description	Positive Impact (Example Metrics)	Implementation Challenges (Example Metrics)	Improvement in Financial Accountability (%)
Internal Controls	Safeguard funds from mismanagement, ensure financial obligations are met	Reporting errors reduction: 25% → 8%	Political interference: 40% of cases	+35%
External Audits	Enhance financial reporting credibility by independent bodies	Irregularities detected: 15% → 3%	Lack of independence: 30% of audits influenced	+42%
Risk Management	Identify & mitigate financial risks, anticipate market fluctuations	Financial risk reduction: 28% → 10%	Lack of commitment: 35% frameworks are not fully applied	+38%
Independent Oversight	Scrutiny by independent boards & audits to prevent corruption	Transparency score increase: 65 → 92 (out of 100)	Political pressure: 45% decisions prioritize politics	+47%
Overall Governance	Holistic approach with transparency & independence from political influence	Public funds efficiency: 70% → 95%	Implementation gap: 50% SOEs are not optimal	+40% (average)

2) Impact of governance on transparency in financial reporting

The research highlights the crucial role of governance mechanisms in promoting transparency in financial reporting within SOEs. Transparent financial reporting is an essential component of good governance, as it ensures that all financial information is presented clearly and accurately. Transparent financial statements help stakeholders, including government officials, investors, and the public,

understand the financial health of SOEs, fostering trust and accountability. When financial reporting is transparent, it reduces the risk of financial mismanagement and enhances the credibility of SOEs in the eyes of both internal and external stakeholders.

However, the study also points to several challenges in achieving full transparency in SOEs. Despite the existence of governance mechanisms, some SOEs still face difficulties in providing accurate and timely financial reports. These challenges are often rooted in weak enforcement of governance practices, as well as a lack of skilled professionals capable of preparing and auditing financial statements to the required standards. In some cases, there may be intentional delays in financial reporting, often driven by a desire to obscure financial problems or avoid scrutiny. As a result, while governance mechanisms may theoretically enhance transparency, the lack of effective implementation and monitoring hinders their success.

The role of independent auditors and external oversight bodies is critical in ensuring transparency in financial reporting. Independent audits provide an objective review of financial statements and ensure that they comply with applicable accounting standards. The involvement of external auditors serves as a check on the organization's financial practices, deterring fraudulent activities and promoting accuracy in financial disclosures. When SOEs are subject to rigorous audits by independent third parties, it increases the likelihood that any discrepancies or irregularities in financial reporting will be identified and corrected.

In addition to external audits, the establishment of independent boards and management oversight also contributes to greater transparency in financial reporting. Independent boards, free from political or managerial influence, are better positioned to ensure that financial statements are accurate and that financial decisions are made with the best interests of stakeholders in mind. This oversight helps maintain the integrity of financial reports and ensures that the financial practices of SOEs are aligned with legal and ethical standards. Through independent oversight, SOEs are held to a higher standard of financial transparency, which ultimately benefits the organization and the public it serves.

Lastly, the research suggests that effective governance mechanisms can also facilitate the timely and accurate disclosure of financial information. When governance structures are in place to ensure transparency, SOEs are more likely to publish their financial reports regularly and ensure they contain all relevant information. Timely financial disclosure is essential for maintaining investor confidence, securing funding, and ensuring that public funds are used responsibly. By promoting transparency in financial reporting, governance mechanisms enhance public trust in SOEs and improve their overall financial performance.

Table 2: Focusing on Governance Mechanisms and Their Role in Promoting Transparency in Financial Reporting Within State-Owned Enterprises (Soes), Based on the Provided Text. It Uses Qualitative Descriptions Without Numerical Data for Conceptual Clarity

Governance Mechanism	Key Role in Transparency	Positive Impact	Challenges
Transparent Reporting	Clear, accurate financial statements for stakeholders	Builds stakeholder trust and accountability	Delays and inaccuracies in financial reports
Independent Audits	Objective review ensuring compliance with standards	Deters fraud and ensures disclosure accuracy	Weak enforcement and non-compliance
External Oversight	Checks financial practices and identifies irregularities	Promotes correction of discrepancies	Lack of skilled professionals for auditing
Independent Boards	Free from political/managerial influence	Maintains the integrity of financial decisions	Political interference affecting board decisions
Timely Disclosure	Regular publication of complete financial information	Maintains investor confidence and responsible fund use	Intentional delays to obscure financial problems
Overall Governance	Holistic structures for accountability and public trust	Enhances financial performance and credibility	Implementation gaps and monitoring deficiencies

3) The Role of Governance in Enhancing Economic Performance

One of the key findings of the study is that effective governance mechanisms are essential in improving the economic performance of State-Owned Enterprises (SOEs). Governance mechanisms such as clear internal controls, strategic risk management, and accountability structures help SOEs operate more efficiently, leading to better financial outcomes. By improving financial reporting and transparency, these mechanisms foster an environment of trust and stability, which in turn enhances SOE performance. The presence of strong governance ensures that SOEs are better positioned to make informed financial decisions, streamline operations, and minimize wasteful spending, all of which contribute to improved economic performance.

The research suggests that well-governed SOEs are more likely to attract investment, operate efficiently, and contribute positively to national economic growth. Investors and stakeholders tend to favor organizations with strong governance structures, as they are perceived as less risky and more likely to generate sustainable returns. Governance mechanisms such as external audits and board oversight improve investor confidence by ensuring that SOEs operate in a transparent and accountable manner. This, in turn, enhances their access to capital, enabling them to expand operations, invest in innovation, and contribute to broader economic development.

Furthermore, effective governance mechanisms help improve decision-making within SOEs. By establishing clear lines of accountability and decision-making authority, governance mechanisms ensure that decisions are made based on accurate financial data and strategic objectives. This results in better resource allocation, more efficient use of public funds, and greater overall organizational performance. SOEs that implement strong governance frameworks are also more likely to adopt best practices in management, leading to increased operational efficiency and improved long-term financial performance.

In addition, the research indicates that governance mechanisms promote a culture of accountability within SOEs, which is crucial for enhancing economic performance. When employees and management are held accountable for their actions and decisions, they are more likely to work towards the organization's financial goals and ensure that resources are used efficiently. This culture of accountability ensures that all stakeholders, from top management to front-line employees, are aligned with the organization's objectives and are motivated to contribute to its success. By promoting a sense of responsibility and ownership, effective governance mechanisms drive improved economic outcomes for SOEs.

Finally, the study suggests that a well-implemented governance framework enables SOEs to adapt to changing market conditions and economic challenges. In a rapidly changing business environment, SOEs must be flexible and responsive to market fluctuations, technological advancements, and evolving regulatory requirements. Governance mechanisms that incorporate risk management and strategic planning allow SOEs to anticipate challenges and make necessary adjustments to maintain operational efficiency. By ensuring that SOEs are adaptable and responsive, governance mechanisms contribute to their long-term sustainability and economic success.

4) Barriers to Effective Governance in SOEs

While the study highlights the importance of governance mechanisms in improving financial accountability, transparency, and economic performance, it also identifies several barriers that hinder the effective implementation of these mechanisms in SOEs. One of the primary

challenges is political interference, which often undermines governance structures and decision-making processes. Political figures and government officials may exert pressure on SOE management to make decisions that align with political agendas rather than organizational or financial goals. This interference can lead to inefficient management, a lack of accountability, and the misallocation of public funds. Another significant barrier to effective governance in SOEs is the lack of commitment to full implementation. While governance frameworks may be established, they are often poorly enforced, and compliance with governance standards is not always monitored effectively. Without strong enforcement mechanisms, SOEs may fail to adhere to the principles of good governance, and governance reforms may not be implemented consistently. This weak enforcement undermines the effectiveness of governance practices and allows inefficiencies and financial mismanagement to persist.

In addition, the study reveals that a lack of skilled professionals in key governance positions contributes to ineffective governance. Many SOEs face challenges in attracting and retaining qualified individuals with the expertise needed to implement and oversee governance practices effectively. The absence of qualified auditors, risk managers, and board members can lead to weak governance structures and poor financial decision-making. Addressing this skills gap is essential for improving governance and ensuring that SOEs operate efficiently and transparently.

The study also highlights the lack of coordination between various governance bodies within SOEs. In some cases, the roles and responsibilities of internal auditors, external auditors, and management are not clearly defined, leading to overlaps or gaps in oversight. This lack of coordination can result in inefficiencies, as well as confusion about accountability and decision-making authority. Establishing clear lines of responsibility and improving coordination between governance bodies is essential for strengthening governance mechanisms and ensuring effective oversight.

Lastly, the research points to the challenge of overcoming resistance to change within SOEs. In many organizations, entrenched practices and attitudes can hinder the implementation of new governance structures. Employees and management may be resistant to adopting new governance practices, especially if they perceive them as burdensome or unnecessary. Overcoming this resistance requires strong leadership, clear communication of the benefits of governance reforms, and the active involvement of all stakeholders in the process.

5) Strategies for Improving Governance in SOEs

To overcome the barriers identified in the study, several strategies can be implemented to improve governance in State-Owned Enterprises (SOEs). One key strategy is the strengthening of enforcement mechanisms to ensure that governance reforms are consistently applied across all SOEs. This could include the establishment of independent oversight bodies with the authority to monitor and enforce governance practices, as well as penalties for non-compliance. Strengthening enforcement will help ensure that SOEs adhere to governance standards and promote financial accountability and transparency.

Another important strategy is increasing political will and commitment to governance reforms. Political interference in SOEs must be minimized to ensure that decision-making is based on financial and operational considerations rather than political interests. This can be achieved through the establishment of independent boards and management structures that are free from political influence. By removing political pressures, SOEs can focus on achieving their financial and operational goals and improve their overall performance.

Improving the skills and qualifications of governance professionals is also essential for enhancing governance in SOEs. SOEs must prioritize the recruitment and retention of qualified auditors, risk managers, and board members who have the expertise to implement and oversee governance practices effectively. Providing training and professional development opportunities for these individuals will also help ensure that they are equipped to handle the complex governance challenges that arise in SOEs.

Additionally, improving coordination among governance bodies within SOEs is crucial for enhancing overall governance effectiveness. By clearly defining the roles and responsibilities of internal auditors, external auditors, and management, SOEs can ensure that there is no overlap or gap in oversight. Clear lines of accountability and regular communication between governance bodies will help improve the overall efficiency of governance practices.

Lastly, addressing resistance to change is critical for implementing effective governance reforms. SOEs must foster a culture of change by clearly communicating the benefits of governance improvements to all stakeholders and involving them in the reform process. Strong leadership, transparency, and a commitment to continuous improvement will help overcome resistance and ensure that governance reforms are successfully implemented in SOEs.

5. Conclusion

This study highlights the essential role that governance mechanisms play in enhancing financial transparency and accountability within State-Owned Enterprises (SOEs). Transparent financial reporting, independent audits, and effective management oversight are key to ensuring that SOEs operate efficiently, in alignment with legal and ethical standards, and in the best interests of all stakeholders. However, the research also identifies significant challenges, such as weak enforcement of governance practices and the lack of skilled professionals, which undermine the effectiveness of these mechanisms. These challenges highlight the need for continued improvements in the implementation of governance reforms to ensure that SOEs fulfill their financial responsibilities and contribute positively to the national economy.

Furthermore, the research emphasizes the importance of fostering a culture of transparency and accountability within SOEs. By ensuring that financial reporting is clear, accurate, and timely, governance mechanisms help build public trust, attract investment, and improve financial performance. The findings suggest that while governance reforms can promote transparency, their success depends on the consistent enforcement of policies, the involvement of independent auditors, and strong leadership. SOEs that adopt comprehensive governance practices are more likely to improve their operational efficiency, attract stakeholder support, and contribute to the country's economic growth.

Theoretical Contributions

This study enriches the existing literature on SOE governance by highlighting the practical challenges faced by governance mechanisms despite the broad theoretical reforms available. By integrating theories such as Agency Theory, Stewardship Theory, and Institutional Theory, this research suggests that the implementation of effective governance must involve more than just theoretical application, but also a strong commitment from all stakeholders to address the real-world challenges faced by SOEs. This study strengthens our understanding of the importance of the synergy between policies, enforcement, and a healthy governance culture to achieve better accountability and economic performance in SOEs.

Advancement of SOE Governance Knowledge

This review advances the current knowledge of SOE governance by offering deeper insights into the practical implementation and challenges in this specific context. The study reveals the gap between governance theory and its application in SOEs, as well as how challenges like political interference and a lack of skilled professionals can hinder effective implementation. As such, this study makes a significant contribution to developing more sustainable and practical SOE governance policies, which can help enhance transparency and accountability in the future.

Acknowledgement

I would like to express my sincere gratitude to all those who have contributed to the completion of this study. Special thanks to the academic institutions, researchers, and organizations whose literature and insights provided the foundation for this research. I also wish to acknowledge the support of my colleagues and peers, whose feedback and discussions enriched this work. Finally, I would like to thank my family for their unwavering encouragement and understanding throughout the research process.

References

- [1] N. R. Ahmad, "Rebuilding public trust through state-owned enterprise reform: A transparency and accountability framework for Pakistan," *Int. J. Bus. Econ. Aff.*, vol. 10, no. 3, pp. 56–69, 2025.
- [2] C. J. Milhaupt and M. Pargendler, "Governance challenges of listed state-owned enterprises around the world: national experiences and a framework for reform," *Cornell Int'l LJ*, vol. 50, p. 473, 2017. <https://doi.org/10.31228/osf.io/zrxmn>.
- [3] L. Jurkonis, Š. Merkliopas, and K. Kyga, "Impact of the corporate governance reform on the management effectiveness of state-owned enterprises in Lithuania in 2012–2014," *Ekonomika*, vol. 95, no. 2, pp. 158–178, 2016. <https://doi.org/10.15388/Ekon.2016.2.10130>.
- [4] T. Dzaga, M. M. Nekhavhambe, and M. J. Sethu, "Good Governance for Sustainable State-Owned Enterprises: A Case of Eskom," *J. Public Adm.*, vol. 58, no. 3–1, pp. 872–885, 2023. <https://doi.org/10.53973/jopa.2023.58.3.1a9>.
- [5] M. Carreira, "Accountability and transparency policies in Spanish Public-Owned Enterprises (POEs)/Spain," *ACCOUNTABILITY, ANTI-CORRUPTION, Transpar. POLICIES PUBLIC-OWNED Enterp.*, p. 61, 2021. <https://doi.org/10.25518/ciriec.css2spain>.
- [6] M. Rajavuori, "Governing the Good State Shareholder: The Case of the OECD Guidelines on Corporate Governance of State-Owned Enterprises," *Eur. Bus. Law Rev.*, vol. 29, no. 1, 2018. <https://doi.org/10.54648/EULR2018005>.
- [7] V. Karagianni, P. Kalantonis, P. Tsartas, and D. Sdrali, "Sustainable Dimensions of Wellness Tourism: Exploring Environmental Sensitivity,
- [8] B. Bernardlauwers, R. Islam, M. Muthoifin, and J. H. Srifyan, "Islamic Business Ethics and Political Economy: A Study of Government Policies in Handling the Food Crisis," *Demak Univers. J. Islam Sharia*, vol. 2, no. 02, pp. 91–110, 2024. <https://doi.org/10.61455/deujis.v2i02.107>.
- [9] O. Riahi and W. Khoufi, "Do the cultural and behavioral factors have an impact on the adoption of international accounting standards," *Int. J. Account. Econ. Stud.*, vol. 5, no. 2, pp. 92–99, 2017. <https://doi.org/10.14419/ijaes.v5i2.7815>.
- [10] N. Baklouti, F. Gautier, and F. Aubert, "Effect of the legal system country of European commercial banks on the financial distress," *Int. J. Account. Econ. Stud.*, vol. 4, no. 2, pp. 168–173, 2016. <https://doi.org/10.14419/ijaes.v4i2.6839>.