

# Corruption as an Entrepreneurship Phenomenon: The Case of the Electronic Identity Card (E- KTP) in Indonesia

<sup>1</sup>Ismail Solihin

***Abstract---**Corruption is a destructive entrepreneurial activity because the perpetrators of corruption only become rent seekers. Corruption is born because of the existence of relations between the government, the House of Representatives and institutional entrepreneurs who together perceive the benefits to be obtained through the implementation of budgeted government activities. This study shows the fulfillment of elements of entrepreneurial activities carried out by perpetrators of corruption, such as: identification of business opportunities; resource collection; establishment of business organizations; production of goods or services; and bear the risk. Thus corruption can be seen as entrepreneurial activity.*

***Keywords---**Corruption, Entrepreneurial Activity, Rent Seeking, Institutional Entrepreneurship.*

---

## I. INTRODUCTION

Entrepreneurship is generally seen as an activity that has a positive impact on the economy of a country. But does every entrepreneurial activity carried out by entrepreneurs have a positive impact on the economic development of a country? The answer turned out to be no. With regard to this general perception, Baumol (1990) has another perspective on entrepreneurship in relation to economic growth. He divided entrepreneurial activities into three categories namely productive entrepreneurship activities, productive activities that are unproductive (unproductive entrepreneurship), even destructive entrepreneurship . Productive entrepreneurship is entrepreneurial activity that produces goods and services so as to increase the economic output of a country which will result in the country experiencing economic growth.

On the other hand, non-productive entrepreneurship and destructive entrepreneurship will only lead to the rearrangement of wealth and not creating wealth so that it does not contribute to a country's economic growth. Baumol exemplifies various activities such as corruption, robbery, theft, piracy, litigation, lobbying, as well as various rent-seeking activities including unproductive entrepreneurial activities Economics has introduced the concept of rent seeking as a form of profit seeking by economic actors (including entrepreneurs) from the various restrictions imposed by the state both in the context of international trade (eg unilateral appointment of importers by the government) and domestic transactions (eg in the form of direct appointment of government project work) so that the price set does not reflect the price that will occur in a perfectly competitive market.

The problem of rent seeking arises from the existence of relations between entrepreneurs and the government. As a public sector organizer, the government every year issues state expenditures for each ministry and institution with the aim of maximizing benefits for the community (Saudi, 2018). To implement various programs and activities that have been budgeted in every ministry and institution, the government involves entrepreneurs to procure goods and services. Entrepreneurs involved in the procurement of goods and services for the government are known as

---

<sup>1</sup> Faculty of Business and Management , Widyatama University , Bandung, Indonesia  
ismail.solihin@widyatama.ac.id

institutional entrepreneurs (institutional entrepreneurship) (Li & Feng, 2005). One of the characteristics that distinguish traditional entrepreneurs from institutional entrepreneurship is the quality of human resources. In addition, in addition to having business intelligence, institutional entrepreneurs must also have political expertise to be able to read changes in the constellation of decision makers in government as executive elements and legislators as a judicial element, so that the approach they take can produce benefits as expected by institutional entrepreneurs.

The business relationship between the government and entrepreneurs, especially institutional entrepreneurs often has the potential to generate rent-seeking phenomena. Anne Krueger (1974) divides rent seeking into two categories. First, rent seeking behavior carried out by entrepreneurs based on an estimate of the expected return above the average normal return in a competing contest. Rent seeking of this type is called by Krueger as competitive rent seeking. In this context Krueger analyzed the behavior of rent seeking conducted by entrepreneurs in India and Turkey to obtain an import license by issuing a number of funds which were considered as investments to obtain an import license from the government and the issuance of this import license was carried out in a competitive tender. Krueger considered rent-seeking like this to be legal rent-seeking because entrepreneurs as private sector economic actors are indeed driven by personal interests to obtain maximum profit.

The second rent seeking category, according to Krueger, is rent seeking activities carried out by entrepreneurs with the aim of obtaining returns above the average return they will get, the market is in perfect competition, but not through competitive tendering, so that social costs arising from the rent seeking activity is very large.

Social costs according to the term Krueger or the loss of welfare (welfare loss) in a country that adheres to the ideology of the welfare state according to the term Herberger (Beck, 1997) arises due to the inefficiency of the use of resources by the state as a public sector actor. The benefits of the use of resources that should be enjoyed by the public turn to be the benefits enjoyed by rent seekers, both rent hunters in the first category and renters in the second category in the Krueger categorization.

The social costs incurred by rent-seeking behavior in the second category are getting worse when the rent hunters do not only get rents that are greater than what they should receive but they also take the public funds for the benefit of state administrators and employers as is common in corruption cases

The rent seeking actors obtain economic returns (return) in the transaction process above the average return they will get if the market were in a state of perfect competition (Buchanan, Tollison & Tullock, 1980). Even in the rent seeking category, which includes corruption activities, rent seeking actors obtain enormous economic benefits for themselves but generate enormous social costs in the form of loss of the benefits of the government budget to provide welfare to the public (Krueger, 1974). This paper tries to analyze corruption as a form of entrepreneurial activity by looking at whether or not the elements of entrepreneurship are fulfilled in a corruption activity. The corruption case taken in this study was a corruption case of the Electronic Identity Card (E-KTP) because the E-KTP corruption case was a corruption case that caused a state loss of Rp2.3 trillion. The entrepreneurial elements in this paper are derived from entrepreneurial theory according to the approach of entrepreneurial activity (Bygrave and Hooper, 1991).

## II. METHODOLOGY

The research method used is a qualitative research method (Mulyana, D., 2018), which is a descriptive analytical method of research on a phenomenon with the aim of explaining the phenomenon as well as possible to gain new understanding or the development of new theoretical theories.

In this study entrepreneurial theory used is process theory (Bygrave and Hooper, 1991). The process approach starts from Danhoff's opinion (Gartner, 1988) which in one of his articles in 1949 stated, "*entrepreneurship is an activity or function and not a specific individual or occupation .... the specific entrepreneur is an unrealistic abstraction*". Gartner (2011) further views entrepreneurship as a series of activities carried out by entrepreneurs and consists of four main activities, namely:

**1. Finding business opportunities**

The first activity carried out by entrepreneurs is finding business opportunities. What is meant by business opportunity is the opportunity to obtain business profits through the utilization of consumer needs that have not been fulfilled with unfulfilled needs or unoptimal use of resources.

**2. Gather various resources to run a business.**

After finding business opportunities, entrepreneurs will gather various resources that they can use to make the business opportunities that they perceive to be a reality. These resources can be in the form of money, human resources, machinery, raw materials, networks etc.

**3. Establish a business organization and run a business**

One important feature of entrepreneurial activity carried out by entrepreneurs is the establishment of business organizations. It is through this business organization that entrepreneurs run their businesses.

**4. Produce and market goods or services**

Other activities carried out by entrepreneurs are producing goods or services and marketing these goods or services to consumers to make a profit

**5. Bear business risk**

Risk is the possibility of future inheritance losses (Rejda, 2015). Risk is an inseparable part of the conduct of business activities so that entrepreneurs are assumed to be willing to take risks when running their business.

**III. RESULTS**

According to Law No. 31 of 1999 concerning the Eradication of Corruption Chapter II Article 2 Corruption Crime referred to as criminal acts of corruption, *"anyone who violently violates an act enriches himself or another person or a corporation that can harm the country's finances or the country's economy"* In Chapter II Article 3 of Law Number 31 Year 1999, it is also stated that what is meant by criminal acts of corruption is, *"Every person who aims to benefit himself or another person or a corporation, misuses authority, opportunity, or means available to him because of a position or position that can harm the country's finances or the country's economy"*.

Indonesia is currently one of the countries that has a high perception index of corruption in this world. The corruption perception index is an index issued annually by Transparency International since 1995 which ranks countries based on perceptions of the country in terms of corruption committed in the public sector (government) based on expert judgment and public opinion surveys.

Table 1.1 provides an overview of the development of Indonesia's Corruption Perspective Index in the last five years

**Table 1.1; Indonesian Corruption Perception Index 2013-2017**

		<b>Year</b>				
		<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
<b>Corruption</b>	<b>Perception</b>	32	34	36	37	37
<b>Index Score</b>						
<b>Rating of Indonesian</b>		114 out of	109 out of	88 out of	90 out of	96 out of
<b>Perception Index in the</b>		176 countries	176	176	176	180
<b>World</b>			countries	countries	countries	countries

Source : Transparency International

Corruption in Indonesia occurs because of the opportunity to obtain benefits that are perceived by rent seekers either from the government as holders of executive power, the House of Representatives (DPR) as regulators as well as institutional entrepreneurs as providers of goods and services.

E-KTP corruption in Indonesia originated from the project of making an Electronic Population Identity Card that allows the population of Indonesia to have a single population identity. Single identity is very necessary in Indonesia, especially during general elections. It has been many years since the New Order era, elections in Indonesia are characterized by the existence of multiple voter lists that originate from the absence of a single identity.

The initiative to commit corruption can come from one of the three parties mentioned above. Once the opportunity for profit is perceived, then it must be agreed upon by the three parties involved in corruption activities. For example in the E-KTP corruption case the three parties reached an agreement in February 2010. According to the records of the Corruption Eradication Commission (KPK) after the budget discussion meeting, the Director General of Population and Civil Registry of the Ministry of Home Affairs, was asked for a sum of money by the Chairman of Commission II DPR. The aim is for the budget proposals requested by the Ministry of Home Affairs to be approved by Commission II of the DPR.

After the agreement takes place, then the perpetrators of corruption agree on the various steps needed to enable the parties to benefit from corruption activities. One of the agreements made by the perpetrators of corruption is to mark-up the E-KTP project through manipulation of the Owner Estimates Price. The value of the E-KTP project agreed upon by the parties was budgeted at Rp. 5.9 trillion. Where from the project value of Rp. 5.9 trillion, which will be used for the real expenditure of the project in the form of making E-KTP, it is only Rp. 2,262 trillion. While the remaining Rp. 2.5 trillion will be distributed to the parties representing the government, the House of Representatives and institutional entrepreneurs.

The perpetrators of E-KTP corruption both from the government, the DPR and institutional entrepreneurs, have now become convicts of corruption cases. They realize that corruption is an extraordinary crime. But they dare to risk being a prisoner of corruption because of the opportunity to earn huge profits from corruption activities.

#### IV. CONCLUSION

By using the E-KTP corruption case as a unit of analysis, it can be concluded that all entrepreneurial activities i.e. : Business opportunities identification; Gather various resources to run a business; Establish a business organization and run a business; Produce and market goods or services; Bear business risk - has been fulfilled so that corruption can be seen as an entrepreneurial activity even though destructive entrepreneurship because it does not benefit for Indonesia's economic growth.

#### REFERENCES

- [1] Baumol, W., J., 1990. Entrepreneurship: Productive, Unproductive and Destructive, *Journal of Political Economy*, Volume 98, Number 5, The University of Chicago.
- [2] Rejda, G.,E., 2005. *Principles of Risk Management and Insurance*, Ninth Edition, Addison-Wesley.
- [3] Saudi, M.H.M., Sinaga, O. & Rospinoedji, D., The role of tax education in supply chain management: A case of Indonesian supply chain companies, *Polish Journal of Management Studies* 18(2):304-319, December 2018.
- [4] Undang-Undang Nomor 31 Tahun 1999 Tentang Pemberantasan Tindak Pidana Korupsi
- [5] Beck, H., 1997. *The Origins Of The Authoritarian Welfare State in Prusia : Conservatives, Beurocracy and Social Question 1815 – 70*, The Michigan University Press.
- [6] Buchanan, James M., Robert D. Tollison, and Gordon Tullock (eds.), 1980. *Toward a Theory of the Rent Seeking Society*. Texas A&M University Press, College Station
- [7] Bygrave, W.D., & Hofer, C., W., 1991. Theorizing about entrepreneurship. *Entrepreneurship Theory and Practice*, Volume 16.
- [8] Gartner, W. B., 1988. "Who Is an Entrepreneur?" *Is the Wrong Question*, University of Baltimore Educational Foundation.
- [9] Gartner, W.B., 2011. A Conceptual Framework for Describing the Phenomenon of New Venture Creation, *The Academy of Management Review*, Vol. 10, No. 4.
- [10] Krueger, A., O., 1974. The Political Economy of the Rent Seeking Society, *The American Economic Review*, Volume 64, Number 3.
- [11] Li, D., D., & Feng, J., 2005. Institutional Entrepreneurs.

- [12] Mulyana, D., 2018. *Metodologi Penelitian Kualitatif Paradigma Baru Ilmu Komunikasi dan Ilmu Sosial Lainnya*, Penerbit Rosda, Bandung.
- [13] Stupin, V.A., Manturova, N.A., Kogan, E.A., Smirnova, G.O., Polivoda, M.D., Silina, E.V. Wound healing by the use of scalpel and various radio-frequency cutting devices (A randomized experimental study)(2018) *International Journal of Pharmaceutical Research*, 10 (4), pp. 330-337. <https://www.scopus.com/inward/record.uri?eid=2-s2.0-85057182599&doi=10.31838%2fijpr%2f2018.10.04.031&partnerID=40&md5=7062f9545c2c1b1f2c84b22c11b5c13b>
- [14] Manoj Kumar Sarangi, Sasmita Padhi (2016) Solid Lipid Nanoparticles–A Review. *Journal of Critical Reviews*, 3 (3), 5-12.
- [15] Roopa Basutkar Satyanarayan, Hema Siva, Tsundue Tenzin, Rayes Ahmed, Raja Durai, Sivasankaran Ponnusankar. "Alirocumab in Combination with Statins for CVD Risk Reduction: An Evidential Review." *Systematic Reviews in Pharmacy* 10.1 (2019), 32-41. Print. doi:10.5530/srp.2019.1.6