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THE IMPACT OF PRIVATIZATION ON STATE-OWNED ENTERPRISES PERFORMANCE: EVIDENCE FROM INDONESIA

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Abstract  
This paper examines privatization of Indonesia State Owned Enterprises. The data used in this study were obtained from the Indonesia Capital Market Directory (ICMD) from 2011-2015. Testing hypotheses are conducted using multiple linear regression with observations from 12 samples of SOEs which are listed in Indonesian stock exchange that did privatization. The result showed that the variable of sales efficiency have significant negative effect, income efficiency have significant positive effect and leverage no significant negative effect on performance of the state-owned enterprise

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Introduction

State-owned enterprises must be professionally managed. Government interference in business causes the inefficiency and effectiveness of the managed business entity. Privatization is the transfer of ownership of state-owned enterprises to the private or public. There are two opinions regarding privatization that is supporting privatization and disagreeing privatization for various reasons. Supporting parties argue that privatization will make SOEs more efficient in order to improve the budget structure and create healthy competition in the market. While those who disagree argue that efficiency is not by selling state assets because efficiency is not due to ownership problems but because of management problem. Privatization is a policy for restructuring the SOEs to its ownership structure through the release of stock. Privatization will drive the company's efficiency. It is also useful to improve the state budget deficit after the crisis. The importance of the role of SOEs to the national economy encourages the government to create competing SOEs, meaning that SOEs must have healthy characteristics and competitive. The most important thing is that SOEs should not be burdened by the state and this can be achieved when SOEs can create significant added value for the State and the national economy.

Privatization leads to improved corporate performance due to statistically significant post privatization improvements on profitability, output, and operating efficiency. (Megginson, Nash, and Randenborgh (1994) Boubakri and Cosset (1998), Megginson and Netter (2001), Sarkar (2010), Boubakri, Cosset, and Saffar (2017)). Profitability is an important measure in assessing the performance of SOEs. The higher the level of profitability means that state-owned enterprises better in managing the company's operational activities within a certain period. Profitability Performance is proxied with return on assets (ROS). Return on Assets (ROS) is a ratio that shows the return (return) on the amount of sales used in the company. Farinós, García, and Ibáñez (2007) How companies manage the productivity of assets to be effective and efficient to produce a certain level of sales will also affect the performance of SOEs. In this research, the productivity of the assets is proxied with Sales efficiency (SALEFF) and Income efficiency (INEFF). The criteria that are often used to measure the performance of the public sector are effectiveness and efficiency. Farinós et al. (2007) how companies manage the productivity of assets. Every company needs funds to finance its assets. If a company uses debt to finance its company then the company uses leverage. Leverage size shows the level of corporate solvency. In this study leverage level is proxied with Total Debt to Total Assets Ratio is the ratio used to measure the level of debt utilization to the total assets owned by the company.

This research can be concluded that SOE performance is how the company produces profitability from its business activity as measured by ROS and how efficiency of BUMN assets can generate sales level measured from SALESEFF and INEFF ratio, and how SOEs financing the asset investment as measured from ratio leverage. We employ a similar methodology and test the same to Farinós et al. (2007), D'Souza, Megginson, and Nash (2005), Omran (2004), Boubakri, Cosset, and Guedhami (2005).
Literature Review

Privatization in Indonesia began in 1995 in Telekomunikasi Indonesia, and became more massive in 1998 when IMF to Indonesia. The economic crisis that occurred in Indonesia in 1997 forced the government to privatize SOEs. Privatization is one of the mandatory requirements of the IMF in assisting SOEs out of financial difficulties caused by the economic crisis. The problem that SOEs often face is that state-owned enterprises are often the source of extortion of bureaucrats and greedy politicians and sources of corruption, collusion and nepotism. In 2016 SOEs recorded a pretty good performance. Recorded total SOE profit reached 197 trillion Rupiah, an increase of 10.1 percent from 2015. While in terms of assets, there is an increase of 9.8 percent to 6.325 trillion Rupiah. Revenue earned by SOEs reached 1.802 trillion Rupiah, an increase of 6.1 percent. While the dividend paid to the state reached 37 trillion Rupiah. Although SOEs have made many changes but the Ministry of SOEs listed the number of state-owned enterprises that lost as many as 12 companies in 2015 and declined to 9 companies in 2016. The main problem faced by SOEs is the decline in financial performance. Privatization is one of development strategy and economic restructuring. Privatization of SOEs is done with the aim of improving the performance of SOEs, profitability, service to the community and the expansion of ownership.

Undang-Undang no.19/2003 on State-Owned Enterprises (BUMN) states that Privatization is done with a view to expanding public ownership of Persero, improving the efficiency and productivity of the company; creating sound financial structure and sound financial management, creating a healthy and competitive industry structure; creating a competitive and globally oriented Persero; fostering business climate, macroeconomic and market capacity. Privatization is conducted with the aim of improving the performance and value added of the company and enhancing the public participation in Persero share ownership.

Cook and Kirkpatrick (1998) There are 4 components in the sense of privatization, namely:

1. Privatization of transition from non-market system to market system, which is marked by the opening of sectors that have only been controlled by SOEs to private sectors.
2. Privatization of production without privatization of finances which can be interpreted as cooperation with the private sector in conducting production activities, for example by running build operate and transfer of state-owned assets to the private sector.
3. Privatization is defined as denationalization marked by the sale of state-owned enterprises or transfer of state-owned enterprises to the private sector.
4. Privatization can be interpreted as liberalization.

Aivazian, Ge, and Qiu (2005) Program Chinese government to increase SOE performance in China without privatization that use three aspects of enterprise performance: profitability, efficiency and investment. The program of corporatization is expected to improve SOE efficiency. Other firm characteristics, such as age, size and capital/labour ratio appear to significantly affect government decisions in selecting which SOEs to restructure. The larger is the firm, the higher is its hazard rate of corporatization. The age and capital intensity of a firm have significant and negative effects on the probability of corporatization, while younger and more labour intensive enterprises are more likely to be corporatized. They suggest an alternative policy prescription for countries looking for a way of restructuring their SOEs without massive privatization. The results also showed that corporatization had no impact on SOE investment levels; that the potential source of the efficiency delivered by corporatization could be from the change in the internal governance system of these enterprises.

Farinòs et al. (2007) examined the operating and stock market performance of Spanish state-owned enterprises (SOEs) privatized through public share issue offerings (SIPs) from 1990 to 2001 compare the performance of SOEs and privately-owned firms. He finds significant improvements in efficiency. He used profitability (ROS, ROA, ROE), sales efficiency, income efficiency, capital investment, real capital in investment output (real sales),
Spanish state-owned enterprises are increasing efficiency and increasing real sales, capital spending and employment after going public, but not their profitability.

Yonnedi (2010) examined the relationship between privatization of state-owned enterprises (SOEs), organizational change and performance. It explores privatization affects company performance through internal changes in organizations in developing countries, used a survey questionnaire of 86 managers in 86 organizations, comprising state-owned enterprises, privatized companies and private companies in Indonesia. Privatization brings major changes in organizational goals, corporate governance and corporate organizational structures that are privatized. This change changed the privatization companies fundamentally different from the state-owned enterprises and in accordance with the competitive market environment. This positive organizational change leads to significant performance improvements. The change of ownership structure, from public to private, the changes of the behaviour, incentives and performance of managers and organizations.

Sarkar (2010) examined the impact of the privatization policy on the performance of state-owned banks using data from the Indian bank industry from 1986 to 2003 and proposed the hypothesis that privatization could improve performance even when the government is still taking part to regulate and oversee. Privatization Privileges have a significant impact on performance improvement Owned banks.

O'Toole, Morgenroth, and Ha (2015) examined the difference in investment efficiency between state-owned holding companies and private companies and evaluated the impact of privatization and equitization policies on the efficiency of previous state-owned enterprises (BUMN) investment. He use a novel dataset from Viet Nam which covers SMEs across construction, manufacturing, and service sectors. The methodology uses a structural model to test the relationship between Tobin's Q and capital spending. While evident differences in investment efficiency are found across the heterogeneous groups of private firms (size, industry, financially constrained and location), we find no evidence of investment spending as linked to marginal returns by SOEs across all sectors and size classes. However, former SOEs that have been privatized and equitized with a minority state shareholding display positive links between Q and investment.

Marcelin and Mathur (2015) analyzed the impact of ownership, legal institutions on privatized companies'. When the government does not conduct the company's operations, competitive forces spur the company's performance and growth. If privatization is implemented, regulations or institutions are important to protect investor rights against unhealthy competition and state predicate. Among the various forms of privatization, SIP seems to play an important role in improving large-scale finance for investment and growth. In countries with weak property protection and poor institutions, it is useful for policy makers to make partial privatizations because market discipline and institutions related to effective corporate governance are weakened. Partial ownership can monitor newly privatized corporate managers. With the government on the privatized board of the company, it can be a form of public-private partnership, which serves as a form of assurance for all stake hold. Developing countries will benefit greatly from strengthening property ownership rights so that the assets of privatized companies are protected and can be used efficiently to generate growth. Increase the legal rights of contracts to convince investors that investment is protected and the state can help investors shape their expectations and increase their confidence when doing financial resources for large-scale projects without fear.

We can therefore pose the following hypothesis :

Hypothesis1. Sales Efficiency has significant effect on the performance of a SOEs privatized.

Hypothesis2. Income Efficiency has significant effect on the performance of a SOEs privatized.
Hypothesis 3: Total Debt to Total assets has a significant effect on the performance of a SOEs privatized.

Research Method
The data for this study come from the Indonesia Capital Market Directory (ICMD) from 2011-2015. Until 2017, there are 12 state-owned companies that have privatized by the method of selling shares in Indonesia. We calculate the financial ratios by using the data in the financial statements. To assess the impact of privatization on the performance of the SOEs, we examine three aspects of enterprise performance: profitability, operating efficiency, and leverage. Profitability is measured by return on sales (ROS). ROS which is defined as net income divided by total sales. Operating efficiency is determined by two variables: sales efficiency (SALEFF) and net income efficiency (INEFF), which refers to sales per employee and EBIT per employee, respectively. Leverage is measured as the total debt to total assets (TDTA).

Result and Discussion

Regression Model
ROSit = β0 + β1SALEFFit + β2 INEFFit + β3 TDTAit + et

ROS as dependent variable. SALEFF, INEFF, TDTA as independent variables;

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient Std. Error t-Statistic Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>0.184789 0.021739 8.492694 0.0000</td>
</tr>
<tr>
<td>SALEFF</td>
<td>-4.16E-11 4.30E-12 -9.682396 0.0000</td>
</tr>
<tr>
<td>INEFF</td>
<td>2.54E-10 1.89E-11 13.44146 0.0000</td>
</tr>
<tr>
<td>TDTA</td>
<td>-0.048518 0.041384 -1.172367 0.2472</td>
</tr>
</tbody>
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Testing hypothesis 1 to test the effect of operating performance on increasing the performance value of SOEs by looking at SALEFF. Based on the regression result in the table, it is shown that the SALEFF variable has negative and significant coefficient on at the 5 % and 10 % level. Thus this result supports the research hypothesis 1.

Testing hypothesis 2 to test the effect of the Income efficiency by looking at INEFF with ratio ROS. Based on the regression result in the table, it is shown that the INEFF variable has positive and significant coefficient on at the 5 % and 10% level. Thus this result supports the research hypothesis 2.

Testing hypothesis 3 to examine the effect of funding level on the improvement of firm performance value of SOEs by looking at the relationship TDTA with ratio ROS. Based on the regression result in the table, it is shown that the TDTA variable has negative and no significant coefficient on at the 5 % level 10% level. Thus this result does not support hypothesis 3 so hypothesis 3 is rejected.
Conclusion

We find that profitability, operating efficiency, and leverage are important determinants of performance improvements of SOE privatized. For further research can also add control variables like corporate governance, industri indicator, size, and macro.

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REFERENCES


