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The Relevance of Corporate Governance and Capital Structure to Financial Performance in State-Owned Enterprises (SOES)

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An increase in the efficiency and productivity of State-Owned Enterprises (SOEs) needs to be conducted by way of restructuring and privatisation measures. The importance of sustainable structuring on the implementation of role of SOEs in national economic system, needs to be continuously structured and made healthy through restructuring through public offerings. Factors which influence the ability of go-public companies to achieve long-term goals can be seen from their financial performance. To see this, an analysis of the relevance of corporate governance and capital structure to financial performance was conducted. The researchers used Fixed Effect Model Analysis (FEM) with the dummy variable method to produce different parameter values both across cross section units and time series, while the estimation was performed with the Ordinary Least Squares (OLS) model. The results of an analysis of eight state-owned companies listed on the Indonesian Stock Exchange (IDX) in 2013-2018 showed that financial performance in the period 2013-2018 had a mean value fluctuating between 0.025100-0.048438, a median value between 0.0188 - 0, 0299, with a standard deviation between 0.033334-0.066409. The highest financial performance fluctuated in 2013-2018 between 0.1090-0.2068, with the highest achievement by PT Bukit Asam (Persero) Tbk in 2017, while the lowest Financial Performance fluctuated between -0.0475-0.0082, with PT Aneka Tambang (Persero) Tbk as the SOE with the lowest Financial Performance in 2015. Based on fluctuations in financial performance, the Ministry of State-Owned Enterprises needs to provide incentives in the form of dividend reduction, to be invested in order to sustain State-Owned Enterprises profits in the future.

Key words: *Efficiency, productivity, State Owned Entity Agency, corporate governance, capital structure, financial performance.*

Introduction

State-Owned Enterprises (SOEs) are one of the economic actors in the national economic system, in addition to private businesses and cooperatives, with most of their capital coming from separated state assets. In carrying out its business activities, BUMN, the private sector and cooperatives carry out the role of mutual support based on economic democracy. In the national economic system, SOEs play a role in producing goods and / or services needed in order to realise the greatest prosperity of the people. BUMN has a strategic role in implementing public services, balancing large private forces, and helping to develop small businesses and cooperatives. The implementation of the role of BUMN is manifested in business activities in almost all sectors of the economy, such as agriculture, fisheries, plantation, forestry, manufacturing, mining, finance, post and telecommunications, transportation, electricity, industry and trade, and construction.

An increase in the efficiency and productivity of BUMN can be optimised through restructuring and privatisation measures. Sectoral restructuring is carried out to create a conducive business climate so as to achieve optimal efficiency and service, while corporate restructuring includes the restructuring of business entities, business activities, organisations, management, and finance. Privatisation is a tool and a way to reform SOEs to achieve several targets at once, including enhancing company performance and added value, improving financial and management structures, creating healthy and competitive industrial structures, empowering SOEs that are able to compete and have a global orientation, spreading public ownership and the development of the domestic capital market.

The importance of sustainable restructuring of the implementation of the role of SOEs in the national economic system, especially efforts to improve the performance and value of the company, has also been mandated by the People's Consultative Assembly (MPR) through Decree Number IV / MPR / 1999 concerning Outlines of State Policy Year 1999-2004. The MPR Decree outlines that SOEs, especially those whose business is related to the public interest, need to be continuously streamlined through restructuring measures and for SOEs whose business is not related to the public interest and are in a sector that has been competitive pushed for privatisation, namely through going public. Internal factors that affect the ability of companies to go public to increase the value of the company can be seen from their financial performance. The company's financial performance is one of the factors considered by investors when investing. One financial ratio that can be used as an indicator in measuring the company's financial performance is the profitability ratio that is often used to measure business performance. Return of Assets (ROA) can show the efficiency of assets used in generating profits. The higher the value of ROA, the better the company's performance. For investors, the company's performance will be viewed in terms of profitability because the stability of stock prices is highly dependent on the level of profits and dividends in the future (Sartono, 2009).

Company value is highly important because it reflects the company's performance which can affect investors' perceptions of the company. Furthermore, the company's value is an investor's perception of the company's success rate which is often associated with stock prices. High company value will make the market believe not only in the company's current performance but also in the company's future prospects (Brigham and Houston, 2017). The high value of the company has an impact on the welfare of shareholders. One of the measurements of company value used is utilises the Tobin's Q ratio, as used by Klapper and Love (2002).

Good Corporate Governance (GCG) occupies an important position in the success of a business over time. The economic crisis in Asia and Latin America is believed to arise due to the failure of the implementation of Good Corporate Governance (Daniri, 2005). The implementation of GCG practices in companies in Indonesia is still problematic, evidenced by aspects such as weak laws, accounting standards and financial audits that have not been established, capital markets that are still under-regulated, weak supervision of commissioners, and neglect of minority rights (Kusumawati and Riyanto, 2005: 248). The condition of GCG practices in companies affects the function of performance appraisal or measurement, which is a tool in the decision-making process, which also shows investors and other interested parties that the company has good credibility. According to Fama and French (1998), there are two policies that will influence or relate to each other in the company, namely capital structure policy and dividend policy. Furthermore, Masidonda (2013) explained that the capital structure policy adopted by a company can affect the value of the business.

The capital structure policy is right for the company from a managerial perspective, namely in determining the optimal source of funds to fund various investment alternatives, so as to maximise the value of the company reflected in its share price, while the dividend policy is related to the policy of how much profit the company will get, and how much will be distributed to shareholders. The optimal combination of capital structure minimises the cost of capital, which then maximises company performance. High leverage companies are expected to improve their performance by simplifying conflicts about free cash flow between shareholders and managers (Kausar, et al, 2014). The capital structure policy adopted by a company can affect the value of the company it has. Company value is the market value owned by a company (Husnan and Pudjiastuti, 2002). Thus, debt is an element of the company's capital structure. Capital structure is the key to improving company productivity and performance. Capital structure theory explains that the company's financial policy in determining capital structure (the mix between debt and equity) aims to optimise the value of the company or the value of the firm (Welch, 2011).

The consequence of the entry of SOEs into the capital market is that capital owners (principals) want to increase the value of the company in a sustainable manner. Meanwhile, management (agents) see how far this benefits themselves in carrying out the authority to manage the company. According to Koller et. al., (2015) one can compare operating performance in various companies from time to time without regard to capital structure. By focusing only on operations, it is possible to develop a clearer picture of historical performance, which also leads to better performance measurement and forecasting. So, determining the stock price requires forecasting the company's income and dividends (Damodaran, 2002).

Research Methodology

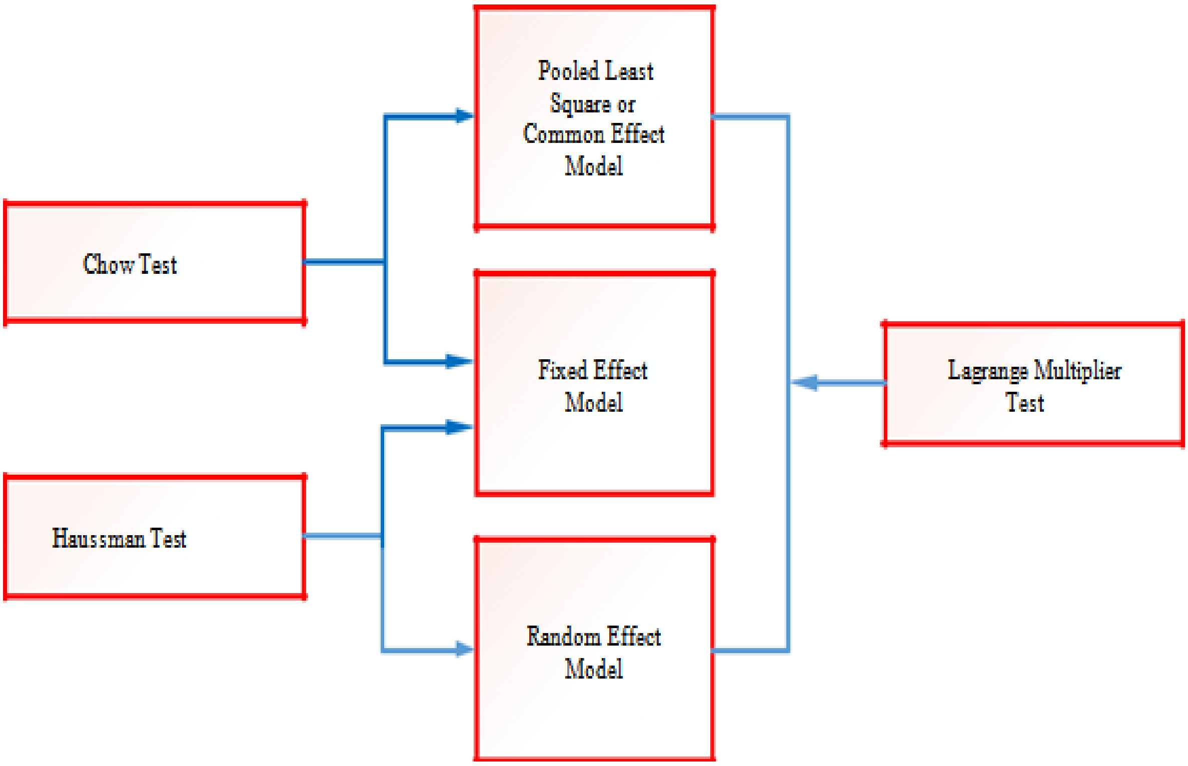
Good Corporate Governance (GCG) is a set of systems that regulate and control companies to create added value for stakeholders. GCG spurs the formation of a professional, transparent, clean and sustainable management pattern, and it is expected that the company's financial performance will continue to improve as desired by shareholders. The Corporate Governance Perception Index (CGPI) is a research and ranking of the application of GCG in public companies and SOEs based on surveys and scoring. The implementation of the CGPI assessment is designed to gauge the extent to which public companies in Indonesia have implemented GCG practices and concepts. Based on the results of research by Indarti and Extaliyus (2013) it can be concluded that CGPI has a significant positive effect on financial performance, while firm size does not have a significant positive effect on financial performance. In this research, an empirical study was carried out on SOEs that were registered on the Indonesia Stock Exchange between 2013-2018.

The research methodology uses quantitative analysis by giving priority to numbers and statistics in order to make predictions that one variable influences other variables. The types of data used in this study are: (1) Time Series Data, which uses data that consists of one object but includes several time periods such as daily, monthly, weekly, yearly, and others; (2) Cross Section data, which uses data consisting of several data objects at a time; and (3) Data Panel, which includes a combination of cross section data and time series data, where the same cross section units are measured at different times.

Data sources taken in the study were sourced from the Indonesian Capital Market Directory (ICMD), annual reports for all selected companies as samples, as well as data taken through the IDX website online. In addition, secondary data was obtained from the Indonesian Economic Statistics Report through the National library. Other sources were from: (1) SOE parent financial statements that have gone public and listed on the Indonesia Stock Exchange as of December 31, 2013 to December 31, 2018; (2) Data on the Corporate Governance Perception Index (CGPI) for BUMN listed on the Stock Exchange Indonesia, published by The Indonesian Institute for Corporate Governance (IICG) from 2013 to 2018; (3) Data on changes in the exchange rate of the Rupiah against the US Dollar from 2013 to 2018. The exchange rate used is the published middle rate by Bank Indonesia.

The statistical test that was used to choose between the Fixed Effect Model and the Random Effect Model is called the Haussman Test. The Model Conformity Test can be seen in the following figure:

Figure 1. Model Suitability Test



The Fixed Effect Model (FEM) is used to overcome the problem of the assumption of intercept or slope of the regression equation that is considered constant in the Pooled Least Square (Common Effect Model = CEM) model. In this method the dummy variable is used to produce different parameter values for both cross section and time series units, then the model is estimated with the OLS model as follows:

$$Y_{it} = \beta_0 + \beta_1 X_{1it} + \beta_2 X_{2it} + \varepsilon_{it} + \sum \beta_1 + 2D_1 + \varepsilon_{it}$$

Where, β0, .. 1 is the intercept model that changes between cross section units and Di is a dummy. From the above equation, as many as n-1 dummy changes have been added to the model, so that the degree of freedom is reduced to n-t-n-k. The decision to include dummy changes in the fixed effect model will have its own consequences, which can reduce the number of degrees of freedom which will ultimately reduce the efficiency of the estimated parameters.

Result and Discussion

The implementation of corporate governance is measured using the Corporate Governance Perception Index (CGPI) which is a research program and ranking the implementation of GCG in companies in Indonesia. CGPI is participated by Public Companies (Issuers), BUMN, Banking and other private companies. Data on the Corporate Governance Perception Index (CGPI) variable of SOE companies listed on the IDX during the study period between 2013-2018, are presented in Table 1 below.

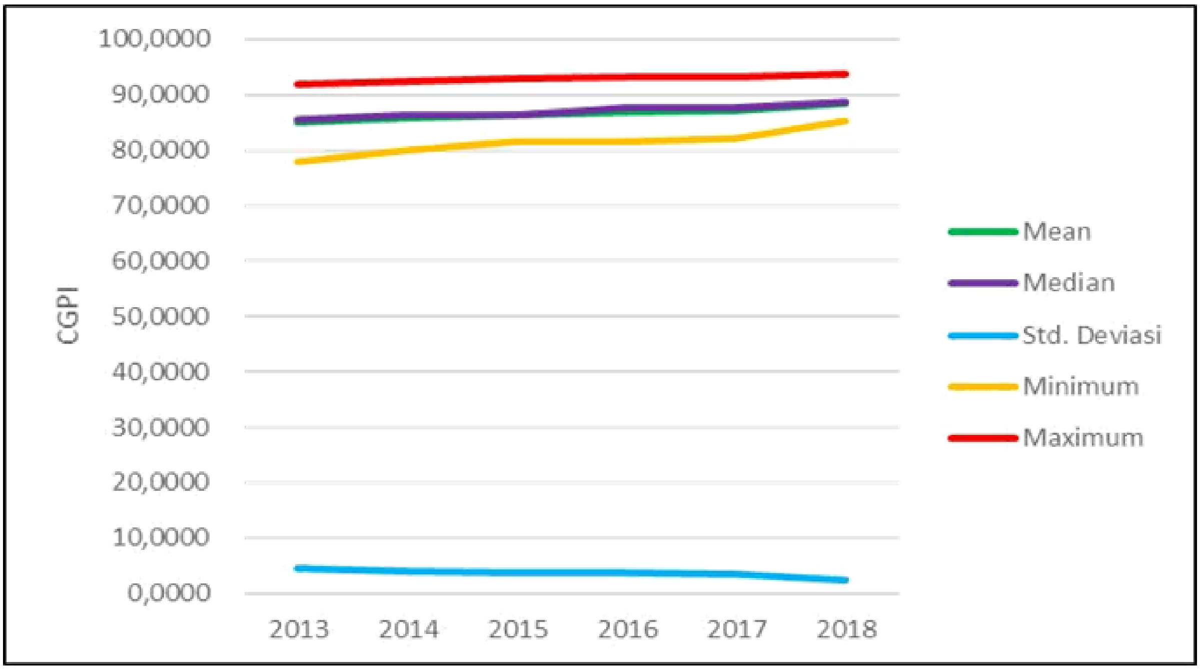
Table 1: Corporate Governance (CGPI) of Eight BUMN Companies Listed on the Indonesia Stock Exchange from2013-2018

Tahun	Corporate Governance (CGPI)				
	Mean	Median	Std. Deviasi	Minimum	Maximum
2013	84,95	85,49	4,430093	77,81	91,88
2014	85,91	86,47	3,925755	80,10	92,36
2015	86,40	86,34	3,642030	81,70	92,88
2016	86,82	87,74	3,732778	81,68	93,29
2017	87,25	87,67	3,438981	82,21	93,32
2018	88,61	88,81	2,552858	85,30	93,86

Based on Table 1 above, in 2013 the company had a Corporate Governance Perception Index (CGPI) of 84.95, a median (midpoint) of 85.49, with a standard deviation of 4.43, and the highest value of the Corporate Governance Perception Index (CGPI) of 91.88 is PT. Mandiri Bank. Tbk, while the lowest Corporate Governance Perception Index (CGPI) was PT Timah (Persero) Tbk of 77.81, for the period of 2014 the company had a Corporate Governance Perception Index (CGPI) with an average of 85.91, median (midpoint) of 86.47, with a standard deviation of 3.925755, and the highest is PT. Bank Mandiri Tbk amounted to 92.36, while the lowest Corporate Governance Perception Index (CGPI) was PT Timah (Persero) TBk of 80.10. During 2015, the company had a Corporate Governance Perception Index (CGPI) with an average of 86.40 , median (midpoint) of 86.34, with a standard deviation of 3.64203, and the highest is PT. Mandiri Bank. Tbk of 92.88, while the lowest Corporate Governance Perception Index (CGPI) is PT Timah (Persero) Tbk of 81.70, for the period of 2016 the company that has a Corporate Governance Perception Index (CGPI) with an average of 86.82, the median (midpoint) of 87.74, with a standard deviation of 3.3838981, and the highest is PT. Mandiri Bank. Tbk of 93.32, the lowest Corporate Governance Perception Index (CGPI) was PT Timah (Persero) TBk of 82.21. During 2017 the company had a Corporate Governance Perception Index (CGPI) with an average of 87.25, a median (midpoint) of 87.67, with a standard deviation of 3.438981, and the highest is PT. Mandiri Bank. Tbk of 93.32, while the lowest Corporate

Governance Perception Index (CGPI) is PT Timah (Persero) TBk of 82.21. In 2018 the company that had a Corporate Governance Perception Index (CGPI) with an average of 88.61, a median (midpoint) of 88.81, with a standard deviation of 2.552858 and the highest was PT Bank Mandiri (Persero) Tbk of 93 , 86, while the lowest Corporate Governance Perception Index (CGPI) was PT Wijaya Karya (Persero) TBk of 85.30. Graphically it is shown in Figure 2 below.

Figure 2. Corporate Governance (CGPI) of Eight BUMN Companies



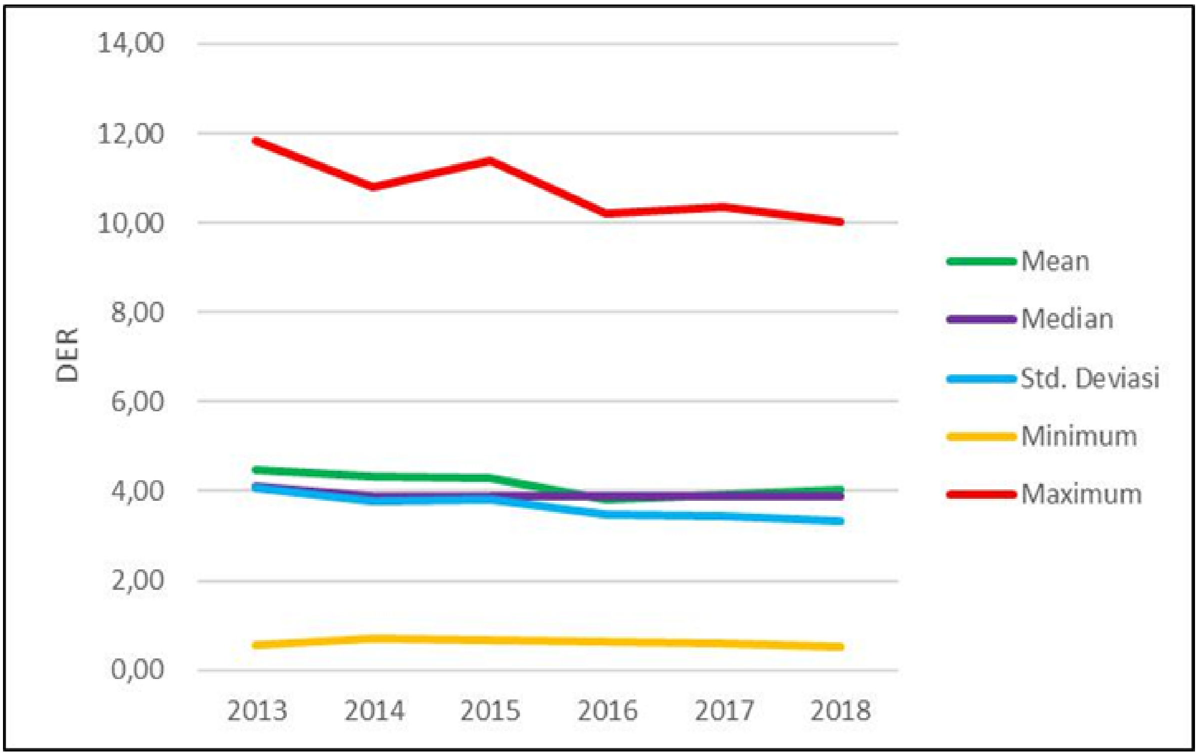
Based on the table and figure above, it shows that the Corporate Governance Perception Index (CGPI) variable has a fluctuating average value in the period 2013-2018 between 85.88 - 87.92, the median value (midpoint) fluctuates between 85.68 - 88, 59, the standard deviation value fluctuates between 1.43-3.78 and the highest Corporate Governance Perception Index (CGPI) fluctuates between 89.06-93.32. The company that has the highest Corporate Governance Perception Index (CGPI) was achieved by PT. Mandiri Bank. Tbk in 2016 and the lowest value fluctuated between 80.10-85.30. The company that has the lowest Corporate Governance Perception Index (CGPI) was achieved by PT Timah (Persero) Tbk in 2015. Furthermore, the capital structure uses a proxy Debt Equity Ratio (DER) which is used to measure the level of debt use to the total equity of the company. The Debt Equity Ratio (DER) of SOE companies listed on the Indonesia Stock Exchange during 2013-2018, are shown in Table 2 below.

Table 2: Capital Structure (DER) of Eight BUMN Companies registered on the Indonesian Stock Exchange, 2013-2018

Tahun	Struktur Modal (DER)				
	Mean	Median	Std. Deviasi	Minimum	Maximum
2013	4,47	4,11	4,06	0,55	11,83
2014	4,34	3,90	3,78	0,71	10,80
2015	4,30	3,90	3,81	0,66	11,40
2016	3,81	3,90	3,48	0,63	10,20
2017	3,92	3,90	3,46	0,59	10,34
2018	4,02	3,90	3,34	0,51	10,02

Based on table 2 above, in 2013 the company had a Debt Equity Ratio (DER) of 4.47, a median (midpoint) of 4.11, with a standard deviation of 4.06, the highest value of Debt Equity Ratio (DER) 11.83 is PT Bank Tabungan Negara (Persero) Tbk, while the lowest Debt Equity Ratio (DER) is PT Bukit Asam (Persero) Tbk of 0.55. For the period of 2014 the company had a Debt Equity Ratio (DER) with an average of 4.34 medians (midpoint) of 3.90, with a standard deviation of 3.78, and the highest was PT Bank Tabungan Negara (Persero) Tbk of 10, 80, while the lowest Debt Equity Ratio (DER) was PT Bukit Asam (Persero) Tbk of 0.71. In 2015, the Debt Equity Ratio (DER) of SOE companies with an average of 4.30 median (midpoint) of 3.90, with a standard deviation of 3.81, and the highest was PT Bank Tabungan Negara (Persero) Tbk of 11.40, while the lowest Debt Equity Ratio (DER) was PT Aneka Tambang (Persero) Tbk of 0.66. Meanwhile, in the period of 2016 the company that has a Debt Equity Ratio (DER) with an average of 3.81 medians (midpoint) of 3.90, with a standard deviation of 3.48, and the highest is PT Bank Tabungan Negara (Persero) Tbk of 10.20, the lowest Debt Equity Ratio (DER) is PT Aneka Tambang (Persero) Tbk of 0.63. In 2017, the company had a Debt Equity Ratio (DER) with an average of 3.92, a median (midpoint) of 3.90, with a standard deviation of 3.46, and the highest was PT Bukit Asam (Persero) Tbk of 10 , 34, while the lowest Debt Equity Ratio is PT Bukit Asam (Persero) Tbk of 0.59 and for the 2018 period companies have a Debt Equity Ratio (DER) with an average of 4.02, a median (midpoint) of 3, 90, with a standard deviation of 3.34, and the highest is PT Bank Tabungan Negara (Persero) Tbk of 10.02, while the lowest Debt Equity Ratio (DER) is PT Bukit Asam (Persero) Tbk of 0.51. Graphically this is shown in Figure 3 below.

Figure 3. Debt Equity Ratio (DER) of Eight BUMN Companies



Based on the analysis results shown in Table 2 and Figure 3 above, it can be concluded that the Debt Equity Ratio (DER) variable has a fluctuating mean value in the 2013-2018 period between 3.81-4.47, the median value (midpoint) fluctuates between 2013 and 2018 between 3.90 and 4.11, the standard deviation values fluctuated in the 2013 - 2018 period between 3.34 - 4.06 and the highest Debt Equity Ratio (DER) values fluctuated in the 2013 - 2018 period between 10 , 02 - 11.83 with the highest Debt Equity Ratio (DER) achieved by PT Bank Tabungan Negara (Persero) Tbk in 2013 and the lowest value fluctuated in the period 2013 - 2018 between 0.51 - 0.71 with Debt Equity Ratio (DER) achieved the lowest by PT Timah (Persero) Tbk in 2018.

Financial Performance, as a measure of the financial achievement of a company which is an investor's perception of the company, is often associated with the value of asset returns. Financial Performance is proxy by using Return on Assets which is the division between Net Income and Total Assets. The results of performance analysis on eight BUM companies are shown in Table 3 below.

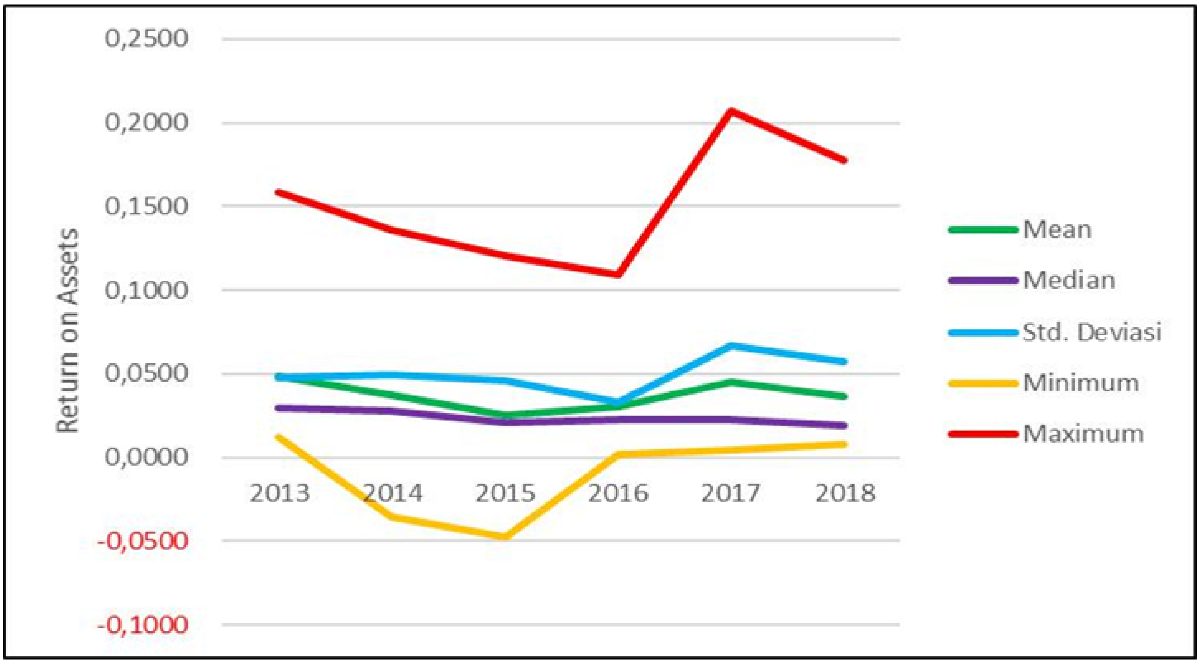
Table 3: Financial Performance (ROA) of Eight BUMN companies listed on the Indonesian Stock Exchange, 2013 to 2018

Tahun	Kinerja Keuangan (ROA)				
	Mean	Median	Std. Deviation	Minimum	Maximum
2013	0,048438	0,0299	0,04786	0,0119	0,1588
2014	0,037750	0,0281	0,049508	-0,0352	0,1363
2015	0,025100	0,0206	0,046264	-0,0475	0,1206
2016	0,030725	0,0225	0,033334	0,0022	0,1090
2017	0,044900	0,0226	0,066409	0,0045	0,2068
2018	0,036800	0,0188	0,057149	0,0082	0,1778

Based on Table 3 above it appears that eight state-owned companies listed on the Indonesian Stock Exchange in 2013 had a mean (Financial Performance) of 0.048438, a median (midpoint) of 0.0299, with a standard deviation of 0.04786. The highest value of the Company's Financial Performance of 0.1588 was PT Bukit Asam (Persero) Tbk, while the lowest Financial Performance of 0.0119 was PT Bank Tabungan Negara (Persero) Tbk. In 2014, companies that have Financial Performance with a mean (mean) of 0.037750, median (midpoint) of 0.0281, with a standard deviation of 0.049508: The highest value of the Company's Financial Performance of 0.1363 was PT Bukit Asam (Persero) Tbk, while the lowest Corporate Financial Performance of - 0.0352 was PT Aneka Tambang (Persero) Tbk. During 2015, eight SOE companies had a Financial Performance with a mean (mean) of 0.025100, a median (midpoint) of 0.0206, with a standard deviation of 0.046264. The highest Financial Performance of 0.1206 was achieved by PT Bukit Asam (Persero) Tbk, while the lowest Financial Performance of -0.0475 was PT Aneka Tambang (Persero) Tbk. Furthermore, in2016, the mean (Financial Performance) of 0.030725, the median (midpoint) of 0.0225, with a standard deviation of 0.033334. The highest financial performance of 0.109 was PT Bukit Asam (Persero) Tbk, while the lowest financial performance of 0.0022 was PT Aneka Tambang (Persero) Tbk. In 2017, the eight SOEs had a mean (Financial Performance) of 0.044900, a median (midpoint) of 0.0226, with a standard deviation of 0.066409: The highest financial performance was achieved by PT Bukit Asam (Persero) Tbk with a ROA of 0.2068, while the lowest Financial Performance was PT Aneka Tambang (Persero) Tbk with an ROA of 0.0045. Finally, in 2018, the eighth Financial Performance of BUMNs whose majority shares are owned by the government was achieved with a mean of 0.036800, median (midpoint) of 0.0188, with a standard deviation of 0.057149. The highest financial performance was achieved by PT Bukit Asam (Persero) Tbk with a ROA of 0.1778, while the lowest Financial Performance was PT Bank Tabungan Negara (Persero) Tbk with an ROA of 0.0082.

Based on the descriptive statistical data, it was concluded that the Financial Performance variable in the period 2013-2018 had a mean value fluctuating between 0.025100-0.048438, the median value (midpoint) fluctuated between 0.0188 - 0.0299, with a standard deviation fluctuating between 0.033334-0.066409. The highest financial performance fluctuated in 2013-2018 between 0.1090-0.2068, with the highest achievement by PT Bukit Asam (Persero) Tbk in 2017, while the lowest Financial Performance fluctuated between -0.0475 - 0.0082, with PT Aneka Tambang (Persero) Tbk as the SOE with the lowest Financial Performance in 2015. Graphically it can be seen in the following Figure 4.

Figure 4. Financial Performance (ROA) of Eight BUMN companies



Conclusion

The empirical evidence in the research makes a significant contribution to the development of management accounting theory and practice. Corporate Governance (CGPI) variables, and Capital Structure (DER) on Corporate Financial Performance (ROA) was used. The research findings show that: Corporate Governance has a positive and significant effect on both financial performance and corporate value. This reinforces Agency Theory, namely that in the relationship between the principal (company owner) and agent (management) there is an agency problem, i.e. the agent does not act in the interests of the principal. Corporate governance functions to overcome the agency problem, so that the company's financial performance gets better and the company's value increases.

Corporate Governance as measured by the Corporate Governance Perception Index (CGPI) has a positive effect on the Company's Financial Performance (ROA) and has implications for the value of the company (Tobin's Q). Therefore, as the Ministry of BUMN, as the coach of BUMN, it is recommended that SOEs are required to be listed on the IDX to follow the CGPI assessment. In addition, SOEs are also required to carry out special assertions on the implementation of corporate governance, as well as conduct a review of these assertions by the Internal Audit Unit, and the results are reported to the Minister of SOEs.

The company's financial performance as measured by ROA has positive implications for the value of the company. Therefore, the Ministry of BUMN needs to provide incentives in the form of dividend reduction, to be invested in the context of SOE profit sustainability in the future. The form is to convert dividends from the government portion into State Capital Inclusion (PMN). Corporate Financial Performance (ROA) is the result of returns from the use of assets efficiently so as to provide benefits for the company. The profits obtained are then made public in the form of annual reports including financial statements that can provide signals to investors to invest. This study supports the signalling theory which shows that signals from management, in the form of financial information, affect investor perceptions of the value of the company. In addition, information about the company's financial performance (ROA) in the financial statements certainly supports the theory of efficient market hypotheses, because the company's financial performance affects the value of the company.

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