SIJDEB, 4(4), 2020, 289-298
p-ISSN: 2581-2904, e-ISSN: 2581-2912
DOI: https://doi.org/10.29259/sijdeb.v4i4.289-298
Received: 23rd September 2020; Accepted: 29th December 2020

SRIWIJAYA INTERNATIONAL JOURNAL OF DYNAMIC ECONOMICS AND BUSINESS

Do Market Performance of SOEs Outperform Private Firms? (A Case of Indonesia Exchange)

Nur Khamisah[1], Anisa Listya[2], and **Ruth Samantha Hamzah[3]**
[123]Accounting Departement , Faculty of Economics, Universitas Sriwijaya
[1]nurkhamisah08@fe.unsri.ac.id, [2]listya_anisa@fe.unsri.ac.id, [3]ruth_samantha@fe.unsri.ac.id

Abstract: The purpose of the privatization strategy is to improve the performance of Stated Owned Enterprises (SOEs) that are considered to have a poor performance that is not better than the private companies. The data is collected from the company's annual report and from the Osiris Database. This research uses purposive sampling method and doing multiple linear regression test analysis to test the research hypothesis. The final sample in this study consisted of 454 company observation. This study finds that privatized SOEs have better levels of market performance than private companies. Regression test results show the coefficient of market performance of SOEs is positive and significant at the level 1%. These results indirectly indicate that the privatization strategy through IPO conducted by the government against several SOEs has been effective in improving the performance of BUMNs.

Keywords: Stated Owned Enterprises (SOEs); Privatization; Market Performance

Introduction

Previous research have documented that there is a difference in performance between State-Owned Enterprises (SOEs) and private companies. Performace of SOEs often perceived is less efficient than private companies (Dewenter & Malatesta, 2001). Ishcak (2002) stated that SOEs in Indonesia are still considered to have weaknesses such as weak control and monopoly in various sectors and coupled with the subsidy from the government and the poor implementation of Good Corporate Governance practices in SOEs (Munawarah et al., 2017) as the main cause SOE performance is still considered low. Yu (2013) and Munawarah et al. (2017) states one of the solution that can be done in an effort to improve the performance of SOEs is to conduct a strategy of privatization. Privatization of BUMN can be done in several ways, such as by conducting initial public offering (Initial Public Offering/IPO), offering shares to employees or management or other means deemed appropriate.

The way of privatization is often done on SOEs in Indonesia is to make a a partial share of SOE shares to the public. When SOEs have entered the capital market, the SOEs are no longer only under pressure to perform with optical from the government but also from the capital market and private investors. SOEs that have going public also have an obligation to conduct transparency and disclosure regarding company activities. Therefore, a good corporate governance mechanism is needed so that SOEs can meet new demands gained when SOEs have been privatized or go public (Yusroni & Restiyanto, 2007) .

Qi et al. (2000) finds that government control negatively affects the company's performance. Ishcak (2002) found that SOEs in Indonesia have better market performance compared to private companies although the results are not significant. Ng et al. (2009) and Hess et al. (2010) who conducted research in Chinese companies showed a positive relationship between government control and the company's market performance. These inconclusive empirical results may be due to model differences, firm performance measurement , and sample selection techniques. The study was conducted with the aim to test whether after SOEs are privatized, SOEs will apply or have a better level of corporate governance and market performance than private companies.

Several previous studies (Rakhman, 2018; Billon & Gillanders, 2016; Munawarah et al., 2017; Ding et al., 2007) have demonstrated that the application of different levels of corporate governance in state enterprises and private companies is also possible causing differences in performance results of state-owned enterprises and private companies. It is supported by Drobetz et al. (2005), who found evidence in his research that firms with high levels of corporate governance can produce good performance (high Tobin's Q values). In other words, the implementation of corporate governance mechanism within a company will be able to improve the company's performance.

This research is motivated by the lack of research on the implementation of the level of corporate governance in state-owned companies, especially those who have been privatized, compared to private companies, which are often said to have better corporate governance than private companies. Research on the performance of SOEs market in Indonesia is still minimum. Rakhman (2018) and Ishcak (2002) found that the financial performance of SOEs in Indonesia has outperformed the financial performance of private companies. Therefore, this research will also expand the research conducted by Rakhman (2018), by examining the market performance of SOEs. Is the market performance of SOEs also has outperformed the market performance of private companies?

Literature Review

The Property Right Theory

The property right theory developed by Alchian & Demsetz (1973) states that there is a distinct incentive for private ownership and public ownership in monitoring the performance of a company. In private ownership, the incentive to exercise oversight over the company's performance is higher because private ownership owns the right property of the company's tradable assets to obtain capital gains or future profits in the form of dividends. Property rights owned by the principal or shareholders provide a

tighter corporate supervisory incentive on the use of corporate resources to and assure that management makes the decision in accordance with the interests of shareholders that is profitability.

Agency Theory

Agency theory explains the relationship of a contract in which one person or more (principal) employs another person (agent) to provide a service and then delegates decision-making authority to the agent Jensen & Meckling (1976). When SOEs go public, an agency conflict between the majority shareholder (government) and the minority (private) shareholder is maybe will required, therefore a corporate governance mechanism is required that prevents or minimizes agency conflict that may arise.

Market Performance of SOEs Privatization

Ishcak (2002) shows that the performance of private enterprise market measured by price earnings ratio (PER) has better results compared to SOEs although the results are not significant. Wei & Varela (2003) and Wei et al. (2005) examined the structure of ownership and firm value as measured by Tobin's Q in Chinese firms also showed that state ownership was negatively related to firm value and the result was significant at the 1% level.

Yu (2013) finds that the split share structure plays an important role in improving the relationship between government ownership and profitability ratios (ROA, ROE and Tobin's Q) and improving corporate governance and reducing the negative effects of nontrafficked state shares. The split share structure is also shown to increase the informativity of stock prices of listed companies in China, especially those with higher state ownership and higher stocks. Peng et al. (2016) states that state-owned enterprises in the 21st century clearly need to excel in market-based resources and capabilities in their respective domains compared to private companies. Moreover, the political ties attached to SOEs will also be expected to boost the performance of SOEs, especiallythose privatized SOEs.

Referring to the property right theory, shareholders have ownership rights over company resources, so that they will provide thigter supervision incentives on the use of company resources to ensure that management makes decisions in accordances with the interest of shareholder (protability) (Yu, 2013). Based on the results of several previous studies above, then developed the following hypothesis.

Hypotheses: Privatized SOEs have better market performance than private companies.

Methods

This study using companies listed on the Indonesia Stock Exchange for the period 2014 to 2016. Sampling using purposive sampling method with several criteria determined. Companies that become the research samples are companies from six subsectors, namely property, infrastructure, consumption, basic industries, mining and banking. The determination of the sample criteria refers to previous research conducted by Rakhman (2018) who also conducted research on the financial performance of BUMN Privatization and private companies. From the sampling, 454 companies that meet the criteria were

selected and became the final sample in this study. Financial data is collected from the OSIRIS database and the company's annual report.

Market Performance

Market ratios used to measure the market performance of companies in this research that Tobin's Q. Tobin's Q is an indicator for measuring company performance, especially about company value, which shows a proforma of management in managing the company's assets. Tobin's Q value can describe the firm's value (Klapper and Love, 2002; Black et al. 2003). Ratio Tobin's Q could in g with formula as the following .

$$Q = \frac{\text{Equity Market Value + Debt}}{\text{Total Asset}}$$

If the company's Tobin's Q value is more than one, it means that the company's market value is greater than the listed company's assets. The market will judge both companies that have high Tobin's Q value. Conversely, if Tobin's Q value is less than one, it indicates that the cost of replacing assets is greater than the market value of the company, so the market will underestimate the company.

SOE Privatization

State-owned variables of privatization were measured using dummy variables. The company will be assigned a value of 1 if it is a privatized state enterprise, and 0 if the otherwise. Measuring the privatization of BUMN using this dummy variable refers to previous research conducted by Rakhman (2018).

Control Variables

The control variables used in this study are ROA, Leverage, Size, Growth and the number of outstanding shares.

Data analysis method

Data analysis used in this research is descriptive statistic analysis, classical assumption test (normality, multicolinearity, heterocedasticity, and autocorrelation), and multiple linear regression analysis for hypothesis testing.

The proposed model for testing hypothesis 1, which is as follows:

$$Q = \square + \square 1BUMN + \square 2ROA + \square 3LEV + \square 4SIZE + \square 5GRWTH + \square 6SB + \square$$

Information:

Q = The ratio of the stock market value plus the total value of the debt to the total value of the asset.
SOE = The privatized SOEs are purchased a value of 1, if the private company is assigned a value of 0.
ROA = The profit-after-tax ratio before the exceptional component of an asset
LEV = Debt ratio to total assets.
SIZE = Logarithm natural assets.

GRWTH = The ratio of the total excess of assets owned by the company in the current period to the previous period to the total assets of the previous period.
SB = Log number of shares outstanding.

The result of market performance hypothesis test can be seen from the model research. It is expected that coefficient □ 1 in model shows that greater than 0 (□ 1> 0). If the value of □ 1 (coefficient) shows a value greater than 0, at a significance level of □ <0,05, then it can be concluded that the privatized state enterprise has a higher market performance than with private companies.

Findings

Data collection

Sampel company used in this research is state-owned enterprise and private firms listed in IDX period 2014-2016. SOEs listed on the IDX are engaged in six sectors, namely property, infrastructure, consumption, basic industries, mining and banking. The number of final samples that meeting the criteria was 454 observations (52.73% of all observations) consisting of 182 firms.

Table 1. **Sample Selection**

Variables	Company	Observation
Initial Sample	282	846
Company that didn't registered in BEI consecutively from 2016-2018	(44)	(134)
Uncompleted Data	(56)	(258)
Final Sample	182	454

Descriptive statistics

The following are descriptive statistics of research variables processed by using SPSS 21.0 for Windows .

Table 2. **Descriptive Statistics of Research Variables**

Variables	SOE (n=41)	Private (n=413)
TQ	1,39	0,99
ROA	2,90	1,96
Leverage	0,56	0,50
Size	23,63	21,72
Growth	23,82	10,62
Outstanding Share	16,02	14,73

The total sample of this study is 454 observations of the company year (consisting of 41 observations of state enterprises and 413 private company observations) from 2014 to 2016. From Table 1. it is shown that the average of market performance as measured by Tobin's Q for SOEs is 1,39% slightly higher than that of private companies with Tobin's Q 0,99%.

The average ROA of the SOEs is 2,90% higher than the ROA of private companies of 1,96%. The results are not much different is shown for leverage , size of the company (size), growth and the number of outstanding shares that indicate that SOEs have a higher value compared with private companies. This indicates that the privatized SOEs have better levels of corporate governance and market performance than private companies.

Classical Assumption Test

Normality Test

The results of the normality test indicate that the Kolmogorov-Smirnov value for the first model Z is 0,806 and the significance value is 0,535. Second Model obtained value Kolmogorov-Smirnov Z amounted to 1,298 with a significance value of 0,069. From the test results, obtained results indicate that the data has been distributed normally so that it can be tested its classical assumptions before doing hypothesis testing.

Heteroscedasticity Test

Glejser test results in Table 2. shows that the significance value of the dependent variable > 0,05 which means the regression model is homocedasticity or does not occur heterocedasticity problem.

Table 3. **Heteroscedasticity test result**

Variables	P.sig
TQ	0,147
ROA	0,069
Leverage	0,388
Size	0,151
Growth	0,146
Outstanding Share	0,126

From the table above can be seen that there is still a little problem heterocedasticity in model. But the problem of heterocedasticity in this model may be slightly neglected because this research using panel data as research object. Verbeek (2012) states that research using panel data can override the limitations or constraints of assumptions when identifying regression parameters, because panel data is more informative, more efficient in reducing correlations among variables.

Multicolinearity Test

Table 4. **Multicolinearity Test Result**

Variables	Tolerance	VIF
TQ	0,881	1,135
ROA	0,857	1,167
Leverage	0,899	1,112
Size	0,437	2,291
Growth	0,978	1,023
Outstanding Share	0,460	2,174

From multicolinearity test can be seen that all variables have a tolerance value greater than 0,1 and VIF value less than 10. So it can be concluded that there is no multicollinearity between variables in the first model and the second model.

Autocorrelation Test

Table 5. **Autocorrelation Test Results**

Durbin Watson	dU	4-dU
1,974	1,86774	2,13226

From the autocorrelation test results indicate that DW values are between the top (dU) and (4-dU) meaning no relation or correlation of residual tar.

Hypothesis testing

Table 5. **Hypothesis Testing Results**

Variables	B	Sig
Cons.	0.472	0,000
SOE	0,147	0,000
ROA	00,11	0,000
Leverage	0,327	0,000
Size	0,000	0,044
Growth	0,000	0,635
SB	0,033	0,000
Adj.R2	0.340	-
F Value	44,483	0,000

Regression analysis results showed that the results obtained in accordance with what is expected by researcher. The coefficient of SOEs shows a positive value at the significance level <0,05 for the hypotheses model. These results indicate that SOEs have better levels of market performance than private firms. So the subject concludes that hypothesis are supported.The results of this study are consistent with the results of research conducted by Tseng (2012). Tseng (2012) finds that the split-share strategy plays a positive role in reducing the agency problems of listed companies in China. Yu and Xu (2010) also found that the split share strategy improved the company's performance in China. Liao & Young (2012) found a significant increase in the output of listed SOEs in the market (profitability, employment, product efficiency, and governance) after reform of the SOE's share structure. Market mechanisms helping to balance the government agenda and the interests of public investors have played an important and positive role in the success of SOEs reform in China. Reducing government ownership in a SOEs is expected to reduce multiprinciple issues (Jiang et al., 2008) and improve corporate governance and stock market efficiency (Yu, 2013). A strategy for reducing the state's ownership of a SOEs can remove trade restrictions on non-tradable shares. As a result, state shareholder wealth becomes more sensitive to stock price movements, and their conflicts of interest with private shareholders and information asymmetry have been reduced (Hou et al., 2012). This result is also in line with what has been stated previously regarding the relationship between the property right theory and the performance of the BUMN market. Where shareholders have ownership rights over company resources, so that they will provide thigter supervision incentives on the use of company resources to ensure that management makes decisions in accordances with the interest of shareholder (protability) (Yu, 2013)

Return on Asset has a significant positive effect on market performance, this result is in line with the results of research (Ehikioya, 2009; Yu, 2013). Leverage is the ratio of debt does not affect the level of corporate governance and positively significant correlation with company performance. This is consistent with several studies (eg, Panasian et al., 2008; Jackling & Johl, 2009). The effect of Leverage to market performance, in line with the signaling theory that states that investors will give a positive response to the company's decision to increase capital that can increase the value of the company. Growth has a positive but insignificant effect on the company's market performance. High growth leads to increased funding needs (a tendency to retained earnings). Companies with high growth indicate that the company is growing and it is assumed that the company will be more focused on the company's growth needs compared to the shareholder's welfare. The number of outstanding shares is seen to have a significant positive effect on the implementation of corporate governance and the company's market performance. This shows that the greater the number of shares of the company in circulation, the implementation of corporate governance becomes better and also followed by improvement of the company's market performance.

Conclusion

The results of this study show that results are consistent with previous studies that found that privatized SOEs have better levels of market performance than private companies. This indicates that the government's strategy to privatize state-owned enterprises through IPO is appropriate. Reducing the share of government ownership in a SOE is said to be able to improve corporate governance and stock market efficiency.

The strategy of reducing state ownership on a SOE can remove trade restrictions on non-tradable shares. As a result, shareholder wealth becomes more sensitive to stock price movements, and conflicts of interest with private shareholders and information asymmetry have been reduced. Thus, it can be said that the sale of some state-owned shares to the public (privatization) has played a positive role in moderating the relationship between state ownership and company profitability ratios. The results support the theory of property rights , agency theory and signaling theories used by companies especially for privatized SOEs to improve the level of corporate governance and market performance.

The implications of this research are expected to provide a new view for companies, especially private companies, to better implement corporate governance and report corporate governance information more fully to be more informative, as such information can be a good signaling tool for investors and potential investors. In addition, information on the implementation of corporate governance can be used as evidence that the company has made efforts to reduce the agency conflict that emerged in the company, so as to produce better corporate performance.

The limitations encountered in this research is the number of SOEs listed in the Indonesia Stock Exchange is still very small when compared to private companies, it is also due to the relatively in short period of this study. The test performed on model 1 using parametric test still finds one of the variables that is not free of heterokedastisity test. Further research is expected to expand the longer study period with larger sample

quantities and by using other market variables so that expected to be obtained better data and free from classical assumption problem.

References

Alchian, A. A., & Demsetz, H. (1973). The Property Right Paradigm. *The Journal of Economic History*, *33*(1), 16–27. https://doi.org/10.1017/S0022050700076403

Billon, S., & Gillanders, R. (2016). State ownership and corruption. *International Tax and Public Finance*, *23*(6), 1074–1092. https://doi.org/10.1007/s10797-015-9390-z

Dewenter, K. L., & Malatesta, P. H. (2001). State-owned and privately owned firms: An empirical analysis of profitability, leverage, and labor intensity. *American Economic Review*, *91*(1), 320–334. https://doi.org/10.1257/aer.91.1.320

Ding, Y., Zhang, H., & Zhang, J. (2007). Private vs state ownership and earnings management: Evidence from Chinese listed companies. *Corporate Governance: An International Review*, *15*(2), 223–238. https://doi.org/10.1111/j.1467-8683.2007.00556.x

Drobetz, W., Schillhofer, A., & Zimmermann, H. (2005). Corporate Governance and Expected Stock Returns: Evidence from Germany. *SSRN Electronic Journal*. https://doi.org/10.2139/ssrn.369100

Ehikioya, B. I. (2009). Corporate governance structure and firm performance in developing economies: Evidence from Nigeria. *Corporate Governance: The International Journal of Business in Society*, *9*(3), 231–243. https://doi.org/10.1108/14720700910964307

Hess, K., Gunasekarage, A., & Hovey, M. (2010). State-dominant and non-state-dominant ownership concentration and firm performance: Evidence from China. *International Journal of Managerial Finance*, *6*(4), 264–289. https://doi.org/10.1108/17439131011074440

Hou, W., Kuo, J. M., & Lee, E. (2012). The impact of state ownership on share price informativeness: The case of the Split Share Structure Reform in China. *British Accounting Review*, *44*(4), 248–261. https://doi.org/10.1016/j.bar.2012.09.003

Ischak, M. A. (2002). Perbandingan Kinerja Keuangan BUMN dan Perusahaan Swasta di BEJ. *Thesis Univrsitas Gadjah Mada Yogyakarta*.

Jackling, B., & Johl, S. (2009). Board structure and firm performance: Evidence from India's top companies. *Corporate Governance: An International Review*, *17*(4), 492–509. https://doi.org/10.1111/j.1467-8683.2009.00760.x

Jensen, C., & Meckling, H. (1976). *Theory of the Firm : Managerial Behavior , Agency Costs and Ownership Structure*. *3*, 305–360.

Jiang, B., Laurenceson, J., & Tang, K. K. (2008). *Share reform and the performance of China ' s listed companies*. *19*, 489–501. https://doi.org/10.1016/j.chieco.2008.02.001

Liao, J., & Young, M. (2012). The impact of residual government ownership in privatized firms: New evidence from China. *Emerging Markets Review*, *13*(3), 338–351. https://doi.org/10.1016/j.ememar.2012.02.004

Munawarah, Din, M., Zainuddin, F., & Muharam, H. (2017). What effects do privatisation policies have on corporate governance of state-owned enterprises? *European Research Studies Journal*, *20*(4), 124–132. https://doi.org/10.35808/ersj/823

Ng, A., Yuce, A., & Chen, E. (2009). Determinants of state equity ownership, and its effect on value/performance: China's privatized firms. *Pacific Basin Finance Journal*, *17*(4), 413–443. https://doi.org/10.1016/j.pacfin.2008.10.003

Panasian, C., Prevost, A. K., & Bhabra, H. S. (2008). Voluntary listing requirements and corporate performance: The case of the dey report and canadian firms. *Financial*

Review, *43*(1), 129–157. https://doi.org/10.1111/j.1540-6288.2007.00189.x

Peng, M. W., Bruton, G. D., Stan, C. V., & Huang, Y. (2016). Theories of the (state-owned) firm. *Asia Pacific Journal of Management*, *33*(2), 293–317. https://doi.org/10.1007/s10490-016-9462-3

Qi, D., Wu, W., & Zhang, H. (2000). Shareholding structure and corporate performance of partially privatized firms: Evidence from listed Chinese companies. *Pacific Basin Finance Journal*, *8*(5), 587–610. https://doi.org/10.1016/s0927-538x(00)00013-5

Rakhman, F. (2018). Can partially privatized SOEs outperform fully private firms? Evidence from Indonesia. *Research in International Business and Finance*, *45*, 285–292. https://doi.org/10.1016/j.ribaf.2017.07.160

Tseng, T. Y. (2012). Will China's split share structure reform mitigate agency problems? *Journal of Chinese Economic and Business Studies*, *10*(2), 193–207. https://doi.org/10.1080/14765284.2012.673781

Verbeek, M. (2012). A Guide to Modern Econometrics. In □□□□□□□□□□ □□□□□□□□□□□□ (Vol. 4, Issue 8).

Wei, Z., & Varela, O. (2003). State equity ownership and firm market performance: Evidence from China's newly privatized firms. *Global Finance Journal*, *14*(1), 65–82. https://doi.org/10.1016/S1044-0283(03)00005-X

Wei, Z., Xie, F., & Zhang, S. (2005). Ownership structure and firm value in China's privatized firms: 1991-2001. *Journal of Financial and Quantitative Analysis*, *40*(1), 87–108. https://doi.org/10.1017/s0022109000001757

Yu, M. (2013). State ownership and firm performance: Empirical evidence from Chinese listed companies. *China Journal of Accounting Research*, *6*(2), 75–87. https://doi.org/10.1016/j.cjar.2013.03.003

Yu, H. H., & Xu, L. B. (2010). Does the Split Share Structure Reform Effectively Improve Firm Performance? *Journal of Zhejiang Gongshang University,* 1(100), 56–62.

Yusroni, N., & Restiyanto, D, T. (2007). Privatisasi Badan Usaha Milik Negara (BUMN), Eksistensi, dan Kinerja Ekonomi Nasional dalam Sistem Ekonomi Pasar. *AKSES: Jurnal Ekonomi dan Bisnis.*