Privatization and Financial Performance: Evidence from Indonesia

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Privatization and Financial Performance: Evidence from Indonesia

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Abstract

The main purpose of this study is to investigate the realtionship between privatization of state-owned enterprises (SOEs) and financial performance. Net profit margin (NPM) is used to assess the efficiency level whereas return on asset (ROA) and return on equity (ROE) are used to assess the level of profitability for financial performance evaluation. Based on purposive sampling, 19 SOEs are obtained as the sample. The results showed NPM and ROA decreased significantly after the privatization. In conclusion, SOEs in Indonesia has not been realized perfectly.

Keywords: *privatization; net profit margin; return on asset; return on equity.*

1. Introduction

The State of Republic Indonesia to date has 142 SOEs and from that number has been privatized to 19 SOEs (Ministry of state owned enterprise republic of Indonesia, 2010). In other words, 123 SOEs have not yet been privatized. SOEs is a moving business entity in various real and not real sectors of business established and owned by the government in order to seek profit so as to supplement state income reflected in the State Budget, and can be categorized as business enterprises where the main objective to be achieved is to maximize shareholder wealth (Republic of Indonesia, 2003), (Kierulff and Learned, 2009).

One of the many strategies that have been applied to SOEs is the restructuring program in the form of privatization so that internal conditions, financial performance, and corporate value will be better (Ministry of state owned enterprise republic of Indonesia, 2010). Good financial performance can be meaning some aspects such as income, efficiency, and profitability. The Government of the Republic of Indonesia as the owner, as the majority shareholder or not of, will have a positive impact in the form of increased inflows of funds such as dividend payments or taxes if the SOE's has good performances.

The component of state income in the form of dividend payments in the State Budget (APBN) is called Non-Tax State Revenue (PNPB), therefore it is very realistic if the State always issues general policies every year to improve the performance of SOEs and increase its contribution to the State Budget (Directorate of APBN, 2017). Masterplan Ministry of SOE also mentioned that one of the strategies, in order to improve performance, is through restructuring and privatization (Ministry of State Owned Enterprise Republic of Indonesia, 2010).

Some studies related to the performance of SOEs before and after the privatization program conducted in various other countries in recent years still show have different results and controversy. William and Robert conducted a State-Owned Enterprise study in several European countries and his research results show that post-privatization of operational and financial performance has increased significantly (L. William, C. Robert, 1998). Omran recorded the same results as Megginson, but they have some other finding such as decreasing the number of employers, the risk and the amount of debt even though are not significant post-privatization (Omran, 2004). The other SOE's research is conducted in Canada and the results indicate a significant increase in financial and operational performance post-privatization (Anthony and Aidan, 2002). Several other researchers note different results, Tu and Yu concluded that the good and bad performance of State-Owned Enterprise after privatization depends on the institutional factors that take over the company. If the institution previously has a business engaged in a business that is in line with the SOE's' business then the performance becomes better, if otherwise have unrelated business field then the performance worsened (Tu and Yu, 2015), Lin concluded that to improve the performance State-owned enterprises in China do not go through privatization programs but through corporate programs that mean some SOEs that have business-related businesses made into a group of business entities so that management becomes more focused and performance improves (Lin, 2001), and Alanasi, Liu and Forster conducted research on companies doing IPO (Initial Public Offering) on the Saudi Stock Exchange to obtain results that financial performance as measured by ROA and ROS (Return On Sales) becomes worse after doing go public, and even the performance becomes damaged related to the IPO (Alanazi, Liu, and Forster 2011). Research related to the financial performance of State- Owned Enterprise before and after privatization has been done in many countries both developed and developing countries, but the results still show some controversy. Further research is needed to fill in the results of research gaps and to re-confirm again whether it is true or not that privatization programs can improve performance so that the results of research can be used as more useful recommendations for the parties or institution state or private that need it.

The performance of SOEs in Indonesia is decreasing and one of the indicators is decreasing the number of dividends paid to the government as well as the decreasing contribution to the APBN as Table 1. One of the strategies used by the Government of Indonesia as a way out is in the form of restructuring and privatization programs (Ministry of state owned enterprise Republic of Indonesia, 2010). In Indonesia there are still many SOEs that have not been privatized, therefore it is urgent to research how the performance of the previously privatized

SOEs if has improved the post-privatization performance or not so that the results of the research can be recommended whether the privatization program can be continued.

Year	Budget (RP-T)	Dividend (Rp-T)	Percentage (%)
2015	1794	37	2.06
2016	1823	34	1.86
2017	1750	41	2.34

Table 1. State-Owned Enterprise Contribution to State Budget

2. Literature Review

2.1. State Owned Enterprises (SOEs)

According to Law Number 19 the Year, 2003 concerning SOEs is a limited liability company whose capital is divided into shares of which all or at least 51% (fifty-one percent) of shares are owned by the Republic of Indonesia whose main purpose is to pursue profit (Republic of Indonesia, 2003). The legal entity of SOEs in Indonesia other than Public Corporation (Perum) in the majority is a limited liability company (Corporation) is a legal entity whose capital in the form of stock sheets, and everyone share has one vote, which owns more than 50% of the shares are the majority shareholder (Republic of Indonesia, 2003).

The purpose of the establishment of State-Owned Enterprise is to provide goods/services of high quality and strong competitiveness and the pursuit of profit in order to increase the value of the company (Republic of Indonesia, 2003), so it can be categorized as a business organization whose main purpose is to maximize shareholder wealth (Kierulff and Learned, 2009). Coverage of the business sector is cultivated is very wide both the real sector and non real, upstream industry and total number of SOEs as many as 142 and 19 of them have been privatized (Ministry of state owned enterprise republic of Indonesia, 2010) and total assets of all SOEs in Indonesia reached 3500 Trillion Rupiah in 2013 (Watch, 2013).

The government is very interested in SOEs performing well so that the tax is big because the company has a profit because if loss cannot be taxed. In addition, the majority shareholder will also receive other income in the form of dividend payments, as the Government always issues the general policies set forth in the State Budget to always improve the performance of SOEs (Directorate of APBN, 2017).

2.2. Restructuring and Privatization

The condition of SOEs in Indonesia is unhealthy one of the indicators is the decrease in the number of dividends paid to the Government as well as the declining contribution to the state budget (Directorate of APBN, 2017). The general policy program pursued is restructuring, namely the efforts made in the framework of the restructuring of SOEs which is one of the strategic steps to improve the internal condition of the company in order to improve the performance and increase the value of the company (Directorate of APBN, 2017). The restructuring is done with the intention to nourish the State-Owned Enterprise to operate efficient transparent and professional. The purpose of restructuring is to improve the performance and value of the company, provide dividend and tax benefits to the state, produce products and services at competitive prices to consumers, and facilitate the implementation of privatization.

Concrete steps in the implementation of the program are one of them privatization namely the sale of shares of SOEs either partly or wholly, to other parties in order to improve the performance and value of the company, enlarge the benefits for the state and society, and expand share ownership by the public (Directorate of APBN, 2017). The sale of SOE's or assets deliberate by the government to private parties is be called as privatization (William and Jeffry, 2001).

Privatization is carried out with the intention of expanding public ownership of SOEs, improving the efficiency and productivity of the company, creating sound financial structure and sound management, creating healthy and competitive industry structures, creating competitive and globally-oriented Persero and fostering a business climate, macro, and market capacity.

Privatization is done with the aim to improve performance and add value to the company and enhance public participation shareholding Limited (Republic of Indonesia, 2003). Privatization, Megginson call as the denationalization interpreted as surrender effective control of a company to the managers and owners of private and usually occur if the majority of the company's shares are transferred to private ownership (L. William, C. Robert, 1998). Furthermore, they categorize the privatization of Partial Privatization and Full Privatization. The Full model means post-privatization of the old owner is not a majority shareholder, but if still the majority can be interpreted following the partial model (L. William, C. Robert, 1998). Changes in the role of the government from the role of owner and implementer become regulator and policy promoter and privatization is carried out by selling stocks based on capital market provisions, direct selling of shares to investors, and selling shares to management and/or employees concerned (Ministry of state owned enterprise republic of Indonesia, 2010).

2.3. Financial Performance

The purpose of a business organization is to gain profit and when it goes public it will be reflected in the stock price so that the maximization of shareholders' wealth is ultimately the main object to be achieved (Kierulff and Learned, 2009). There are several indicators of whether the goal has been achieved, one of which is the financial performance that will measure how far the goal has been achieved. The better the financial performance the better the achievement of goals and vice versa will be further away from the direction of the goal.

The financial performance uses several measuring instruments in the form of financial ratios to measure whether the company's objectives have been met. There are many categories of financial ratios such as ROA, ROE and Net Income Margin (NIM), (Nimtrakoon, 2015), (Slavica Jovetic, 2016).

2.4. Privatization and Financial Performance

Generally, state-owned enterprises (SOEs) are not successful, many economists argue that one of the causes is the intervention of the government, and after privatization of work the performance has improved (Pingle, 1997). SOEs in Indonesia are not much different also experienced a decrease in performance, strategies to overcome them through restructuring and privatization programs (Ministry of state owned enterprise republic of Indonesia, 2010). The government undertakes a privatization program on SOEs in the hope that in addition to obtaining funds it also benefits from increased efficiency, acquainted with competition, attracting foreign investors and spreading ownership (William M, Stephen, 2000). Post-execution of privatization program strategy the financial performance will be better, including such as increasing sales, profitability level, operational efficiency level, capital expenditure, employee amount, dividend payout and debt downturn (L. William, C. Robert, 1998), (Anthony and Aidan, 2002).

3. Materials and Methods

The research population is SOE in Indonesia which amounts to 123 (Ministry of state owned enterprise republic of Indonesia, 2010) and using purposive sampling method that is selecting the sample from research population with the certain consideration. Three components are taken into consideration in the determination of the sample, the first SOE has been privatized and the second is available privatization prospectus and the third available stock price list for 3 years before and after it is privatized. Based on the sampling method, 19 samples of SOEs were selected.

4. Results

4.1. Performance Efficiency

The financial ratios used to measure the efficiency of SOEs before and after the Privatization Program are the ratio between net profit and sales rate or NPM. 3-year empirical data before and after the Privatization Program as Table 2.

Ratio	Before	After	Change
NPM	11.31%	1.45%	-8.7%
ROA	12.14%	4.09%	-6.6%
ROE	17.32%	12.40%	-2.8%

Table 2. Performance before and after the Privatization Program

Based on Table 2 it can be analyzed that the efficiency of SOEs as measured by NPM after privatization showed an average decrease of 87%. Before being privatized an average of 11.31% NPM and post-privatization of 1.45%.

4.2. Profitability Performance

The financial ratios used to measure the profitability of SOEs before and after the Privatization Program are the ratio between net income to total assets or ROA and the ratio between net income to equity (ROE). 3-year empirical data before and after the Privatization Program as Table 2.

Based on Tables 2 it can be analyzed that the profitability of SOEs if measured by ROA after privatization shows an average decline of 66%, whereas if measured by ROE post-privatization showed an average decrease of 28%. ROA before being privatized on average 12.14% and post-privatization of 4.09% and ROE before privatized on average 17.132% and post-privatization of12.40%.

4.3. Normality test

The study used three financial performance variables: NPM, ROA and ROE and all data related to those variables should be tested for normality of data in advance to select the difference test of parametric or non-parametric mean that finally used to test the hypothesis.

Variables	Asymp. Sig. (2-Tailed)		Significant
	Before	After	0.05
NPM	0.704	0.017	0.561
ROA	0.628	0.561	0.347
ROE	0.976	0.347	0.017

Table 3. Result of Kolmogorov-Smirnov-Test

Based on the Kolmogorov-Smirnov normality test Table 3, it can be analyzed that two financial performance variables ROA and ROE have Asymp. Sig. (2-tailed) larger alpha (α) 0.05 so that it can be concluded to be normally distributed. The other financial performance of NPM has Asymp. Sig. smaller than alpha (α) 0.05 so it can be concluded not normally distributed. The test implies that to examine the differences in financial performance of ROA and ROE of SOEs before and after the Privatization Program is used T-test of two paired samples (Parametric) and the remainder is used Wilcoxon (Non-Parametric) Marked-Ranking Test.

4.4. Hypothesis Testing

The results of NPM before and after the privatization program are shown in Table 4.

Information	Result
Before – Average	11.31%
After – Average	1.45%
Asymp. Sig	0.000

Table 4. Result Wilcoxon-Test

Based on Wilcoxon test results in Table 4 has Asymp value. Sig 0.000 and smaller than the alpha value (α) 0.05, so the research hypothesis which states that there are differences in financial performance of SOEs seen from the significant NPM before and after the privatization program concluded acceptably. This means that it is significantly proven that the financial performance viewed from the aspect of efficiency (NPM) has decreased. Post privatization of SOE efficiency is even lower.

The results of ROA before and after the privatization program are shown in Table 5.

Information	Result
Before – Average	12.14%
After – Average	4.09%
T-Count	2.519
Asymp. Sig	0.021

Table 5. Results T–Test Pair Sample

Based on the result of paired sample T-test as Table 5 has t-count value 2.519 bigger when compared with t- Table value with (α) 0.05 equal to 2 or level of significance 0.021 less than alpha value (α) 0.05, research hypothesis stating that there are differences in financial performance of SOEs seen from significant ROA before and after the privatization program concluded acceptably. This means that it is significantly proven that the financial performance viewed from the aspect of profitability (ROA) has decreased. Post privatization profitability SOEs are even lower.

The results of ROE before and after the privatization program are shown in Table 6.

Information	Result
Before – Average	17.32%
After – Average	12.40%
T- Count	1.166
Asymp. Sig	0.259

Table 6. Results T–Test Pair Sample

Based on the result of paired sample T-test as Table 6 has a t-count value of 1.166 smaller than the value of t-Table with (α) 0.05 of 2 or 0.259 significance level greater than the value of alpha (α) 0.05, so the hypothesis research that states that there are differences in financial performance of SOEs seen from significant ROE before and after the privatization program concluded not acceptable. This means that it is not significantly proven that the financial performance viewed from the aspect of profitability (ROE) has decreased. Post privatization profitability SOEs are even lower but not significant (signified).

5. Discussion

Based on the descriptive analysis and statistical test it can be seen that the efficiency of SOEs as measured by NPM post-privatization decreased significantly. The net profit gain for each rupiah decreased. The company's financial statements, in this case, the income statement photographed the operational activities in the form of money. Starting from the sale then reduced by non-operational and operational cost so that finally obtained net profit. The assumption of constant revenue (before and after privatization), the smaller the net profit the greater the total cost incurred, the greater the cost incurred inefficient SOEs in running their business activities. The condition of state-owned enterprises after privatization is increasingly inefficient.

ROA is also used to evaluate the performance of SOEs financials other than NPM. Based on the descriptive analysis and statistical test it can be seen that the profitability of SOEs as measured by ROA after privatization decreased significantly. Net profit earned for each unit of rupiah asset value decreased. If the net profit per unit of asset increase is analogous to the assets of the valuable SOEs, on the contrary, if the net profit per asset unit decreases is also analogous to the less valuable asset of SOEs. State-owned enterprises post-privatization is worse because the privatization program makes assets – asset SOEs are getting less expensive.

The third financial performance indicator beside NPM and ROA is ROE. Based on the descriptive analysis and statistical test it can be seen that the profitability of SOEs as measured by post-privatization ROE decreased but not significantly. The net profit gain for each rupiah unit of equity value decreased. If the net income gain per unit of equity raise is analogous to the valuable state-owned equity, on the contrary, if the net profit per equity unit decreases, it is also analogous to the increasingly unqualified SOEs equity. The condition of SOEs after privatization is worse because, with the privatization program, SOEs equity becomes less expensive.

The privatization program is implemented within the framework of improving the efficiency and value of the company, with empirical evidence of efficiency as measured by the NPM, so the goal of privatization has not been achieved. The financial performance that wants to be improved actually decreases post-privatization, this finding supports the research result from Alanasi (Alanazi, Liu, and Forster, 2011) even though with different research object. The results of (Tu and Yu, 2015) further strengthen these empirical findings, as they record the performance of SOEs in China after the privatization worsened, even (Lin 2001) in his research with the object of SOEs also in China mentioned to improve performance not through privatization program but by forming a corporation (holding), meaning that SOEs with similar business activities become one group of management so that efficiency and effectiveness happen by itself.

2. Conclusion

This study concludes that (1) The financial performance of SOEs after privatization when viewed from the aspect of NPM and ROA is significantly lower when compared before the privatization; and (2) The financial performance of SOEs after privatization when viewed from the aspect of ROE is lower but not significant when compared to before the privatization. Suggestion for further research, the privatization program is not a simple corporate action, therefore post-privatization is necessary adjustments related to business operations, and really takes a long period of time. Event study used in this research only use 3 year period of the post-privatization window so there is the possibility of post-privatization performance not yet reflects real condition.

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