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The Ownership, Remuneration, Corporate Governance, and Financial Performance of Indonesian State-Owned Enterprises

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ABSTRACT
The purpose of this research is to investigate the relationship between ownership, remuneration, corporate governance, and the financial performance of Indonesian state-owned enterprises (SOEs). The research population is all state-owned enterprises listed in the Indonesia Stock Exchange, and the samples were selected using purposive sampling. Using generally least square multiple regression analysis, this study finds that public ownership has a positive and significant effect on financial performance. Independent board of commissioners and independent audit committee have a significant positive effect on financial performance, but the size of board of commissioners and the size of audit committee have no effect on performance. The board of commissioners' remuneration has a negative effect on performance, while directors' remuneration has a positive effect on performance. The results also imply that remuneration at executive level has a positive impact on performance, but at supervisory level it has no effect, except adding to the burden. Leverage, as measured by debt to assets ratio, has a negative effect on performance.
Keywords: *ownership, remuneration, corporate governance, SOE, financial performance*

JEL Classification*: D13, I31, J22, K31*

1. INTRODUCTION

The purpose of this research is to investigate the relationship between ownership, remuneration, corporate governance (CG), and the financial performance of Indonesian SOEs. The performance of SOEs continues to be in the spotlight. Since 24 SOEs experienced losses, Indonesia lost up to IDR 5.8 trillion in 2017 [1]. Private airlines continue to grow, while Garuda Indonesia suffers losses. Garuda Indonesia recorded a net loss during the first half of 2017 for USD 283.8 million. Outside the non-recurring expense, the company's total net loss reached USD 138 million [2]. PT Garuda Indonesia Tbk again recorded a loss of USD 114 million, or around IDR 1,65 billion in the first semester of 2018 [3]. Other large companies that suffered losses are PT Pos Indonesia, PT Aneka Tambang, PT Krakatau Steel, PT Dana Reksa, PT Indofarma, and Perum Bulog [4].

INDEF Director and economic observer, Enny Sri Hartati, stated that SOEs inefficiencies stemmed from corporate governance, human resources, and technology [1]. Therefore, this research will examine CG in SOEs, which is one of the causes of SOEs failure

Previous researches about the relation between corporate governance and performance have been carried out, but little attention was paid to remuneration in Indonesian state-owned enterprises. In addition, the results of previous research are inconsistent, from negative, positive, to no effect. These might be explained by including board of commissioners and directors' remuneration, as well as the percentage of public ownership of Indonesian SOEs. Based on the description, this study formulates the research questions as follows: Do types of ownership, corporate governance, and remuneration affect the financial performance of SOEs?

2. HYPOTHESIS

2.1 Ownership & Financial Performance.

Researches related to ownership and performances have been carried out. The results are inconsistent; some indicate positive effect, others indicate negative effect, or even no effect [5, 6]. the first hypothesis (H1) of this research is that type of ownership influences the financial performance of SOEs.

2.2 Corporate Governance and Financial Performance

Corporate governance (CG) is designed to maximize the profitability and value of the company in the long term for

the benefit of shareholders. Some previous studies are inconsistent about CG's influence on performance [7, 8, 9]. This research suggests that the inconsistencies can be explained by including remuneration for the board of commissioners and the board of directors, as well as the percentage of government and non-government ownership of SOEs. Therefore, the second hypothesis (H2) of this study is that corporate governance influences performance.

2.3 Remuneration and Performance

Human resources in organizations have a strategic and decisive role. Various efforts have been made to optimize the role and function of human resources, such as giving high salary, wage, remuneration, or incentives. The findings of previous researches indicate that the relationship between remuneration and performance is inconsistent, influential and not influential [10, 11, 12]. However, financial performance such as net income is often used as the determinant of employee compensation [13]. This research predicts (H3) that the board of commissioners' and the board of directors' remuneration affect company's financial performance.

3. METHOD, DATA, AND ANALYSIS

3.1 Sampling and Data Collection

This research was conducted at state-owned enterprises listed in the Indonesia Stock Exchange (IDX). The sample SOEs are 20 companies with the observation period of 5 years, so the total sample is 100 observations. This study uses secondary data in the form of financial statements and annual reports issued by the IDX. The data was also obtained from the Indonesian Capital Market Directory (ICMD).

3.2 Variable Definition and Measurement

The dependent variable consists of two financial performances: return on assets (ROA) and return on investment (ROE). The independent variable is corporate governance, which consists of ownership type, corporate governance structure, and remuneration. The ownership types are divided into government ownership (Gov), private institutions ownership (Priv), and public ownership (Public). The CG structure is proxied by the number of board of commissioners (Bod_Size), number of audit committees (CA_Size), board of independent commissioners (Bod_Indp), and independent audit committee (CA_Indp). Remuneration is proxied by the remuneration of the board of commissioners (Remun_Bod) and the remuneration of the board of directors (Remun_Dir). The control variable consists of leverage level and firm size. The level of leverage is represented by debt to assets ratio (DAR) and debt to equity ratio (DER).

3.3 Model Specification

This research uses generally least square (GLS) multiple regression analysis to test the hypotheses. The data of this study is panel data, a combination of time series and cross-section data. To test the hypotheses, the research uses model 1 as follows.

$$ROA_{it} = \alpha_{it} + \beta_1 GOV_{it} + \beta_2 Priv_{it} + \beta_3 Public_{it} + \beta_4 Bod\_Size_{it} + \beta_5 CA\_Size_{it} + \beta_6 BodIndp_{it} + \beta_7 CA\_Indp_{it} + \beta_8 Remun\_Bod_{it} + \beta_9 Remun\_Dir_{it} + \beta_{10} DER_{it} + \beta_{11} DAR_{it} + \beta_{12} Size_{it} + \varepsilon_{it}$$

$$ROE_{it} = \alpha_{it} + \beta_1 GOV_{it} + \beta_2 Priv_{it} + \beta_3 Public_{it} + \beta_4 BodSize_{it} + \beta_5 CA\_Size_{it} + \beta_6 BodIndp_{it} + \beta_7 CA\_Indp_{it} + \beta_8 Remun\_Bod_{it} + \beta_9 Remun\_Dir_{it} + \beta_{10} DER_{it} + \beta_{11} DAR_{it} + \beta_{12} Size_{it} + \varepsilon_{it}$$

4. RESULTS AND DISCUSSION

4.1 Univariate Analysis

The descriptive statistics, as stated in Table 1, show the minimum, maximum, average, and standard deviations of the variables. Based on the average value of ROA and ROE, the performance of SOEs is quite good because it is still the same or above the bank's interest rate. Based on the minimum, maximum, and mean data, it can be concluded that the CG mechanism in state-owned enterprises is administratively in accordance with the statutory provisions.

Table 1. Descriptive Statistics

	Min	Max	Mean	S.Dev.
ROA	-.1200	.4290	.0600	.0811
ROE	-.4060	1.3424	.1620	.2048
Gov	.0000	1.0000	.6793	.1645
PRIV	.0000	.6500	.0165	.0703
Public	.0000	.9848	.2898	.1796
Bod_Size	3	10	6.08	1.261

CA_Size	2	8	4.23	1.238
Bod_INDP	.0000	.7143	.4020	.1217
CA_INDP	.0000	1.000	.5570	.3056
REMUN_BOD	-.0631	.5171	.02761	.0788
REMUN_DIR	-.1668	.6996	.03167	.0887
DER	.0143	7.896	2.2072	2.476
DAR	.0041	.9193	.4844	.2923
Size	12.09	15.05	13.59	.7631
Net Income	-5 T	32,7 T	5 T	8 T

correlation matrix for independent variables in Table 2 shows no correlation coefficient of above 0.8.

4.2 Bivariate Analysis

Pearson and Spearman's correlation between variables was calculated and presented in Table 2. The assessment of the

Table 2. Pearson Correlation

	ROA	ROE	Gov	PRIV	Public	Bod_ Size	CA_ Size	Bod_ INDP	CA_ INDP	Rmun_ Bod	Remun_ Dir	DAR	DER
ROE	.495**												
Gov	-,007	-,189											
PRIV	-,071	-,048	-.365**										
Public	,090	.201*	-.494**	,079									
Bod_Size	,087	.221*	-.382**	-,100	,158								
CA_Size	,106	,138	-.261**	-,084	.339**	.519**							
Bod_INDP	-,057	-,064	-,021	,029	-,015	.298**	,099						
CA_INDP	,142	,196	-.291**	-,072	-,006	.248*	-,177	-,092					
Remun_Bod	-,144	-,134	,037	-,035	-,096	-,165	-,113	-,038	-,043				
Remun_Dir	-,098	-,094	,048	-,045	-,113	-,171	-,192	-,006	-,077	.473**			
DAR	-.304**	-,111	-,059	,107	-,004	.272**	,111	.418**	,147	,048	,061		
DER	-,026	,122	,097	-,034	-,096	,032	-,112	-,008	.257**	-,035	-,025	.264**	
Size	,085	,153	-.336**	-,078	,081	.823**	.584**	.235*	,176	-,135	-,124	.412**	-,031

4.3 Multivariate Analysis

Table 3 presents the results of the regression analysis used to test the hypothesis. The regression results show that model 1 is significant ($p < 0.01$) and explains 25.1% of the relationship between the dependent variables and the independent variable. Similarly, model 2 has a statistically significant F value ($p < 0.01$) and explains 55.8% of the relationship between the dependent variables and the independent variable.

Table 3. Regression Analysis

$$ROA_{it} = \alpha_{it} + \beta_1 GOV_{it} + \beta_2 Priv_{it} + \beta_3 Public_{it} + \beta_4 BodSize_{it} + \beta_5 CA\_Size_{it} + \beta_6 BodIndp_{it} + \beta_7 CA\_Indp_{it} + \beta_8 Remun\_Bod_{it} + \beta_9 Remun\_Dir_{it} + \beta_{10} DER_{it} + \beta_{11} DAR_{it} + + \beta_{12} Size_{it} + \varepsilon_{it} \quad (1)$$

$$ROE_{it} = \alpha_{it} + \beta_1 GOV_{it} + \beta_2 Priv_{it} + \beta_3 Public_{it} + \beta_4 BodSize_{it} + \beta_5 CA\_Size_{it} + \beta_6 BodIndp_{it} + \beta_7 CA\_Indp_{it} + \beta_8 Remun\_Bod_{it} + \beta_9 Remun\_Dir_{it} + \beta_{10} DER_{it} + \beta_{11} DAR_{it} + \beta_{12} Size_{it} + \varepsilon_{it} \quad (2)$$

Variable	Model 1			Model 2		
	Coefficient		t-Statistic	Coefficient		t-Statistic
C	-0.341	*	0.190	-0.340		0.227
GOV	0.116	**	0.049	0.056		0.053
PRIV	0.121		0.102	0.104		0.162
PUBLIC	0.061	*	0.035	0.174	***	0.036
BOD_SIZE	-0.005		0.009	0.016		0.011
CA_SIZE	0.010		0.006	0.041	***	0.009
BOD_INDP	0.109	**	0.054	0.156	***	0.056
CA_INDP	0.078	***	0.023	0.200	***	0.031
REMUN_BOD	-0.302	***	0.111	-0.648	***	0.114
REMUN_DIR	0.146	**	0.062	0.317	***	0.076
DAR	-0.128	***	0.026	-0.155	***	0.029
DER	0.000		0.000	0.001	**	0.0008
SIZE?	0.019		0.016	0.001		0.020
Adj. R-squared	0.307			0.611		
F Statistic	0.251	***		0.558	***	

***, **, **show that coefficient is significant at 0.01, 0.05, and 0.1 respectively*.

4.4 The Effect of Ownership Type on Performance

The results in table 3 and 4 show that public ownership has a significant positive effect on financial performance, as measured using either ROA or ROE. Government Ownership has a significant positive effect on ROA, but it has no effect on ROE. These results indicate that public ownership has a more robust influence than government ownership on financial performance. Public ownership has a positive and significant effect on financial performance, meaning that greater percentage of public ownership in state-owned enterprises produces better financial performance. This result is in line with the type 2 agency theory, which states that controlling shareholders potentially use their authority to take private benefits for their own interests. In state-owned enterprises that are managed by the Government, taking private benefits by the authorized parties is used to benefit themselves and groups (political parties) that support them in gaining power. Yet, this research does not necessarily suggest that ownership is then submitted to the public, given that SOE is owned by the public and the products or services provided are related to the livelihood of many people. This research only shows that the best CG in public ownership is more effective in increasing performance than in government ownership SOEs. Therefore, the results of this research can be used to evaluate CG practices in SOEs in terms of transparency, accountability, and overseeing mechanisms of various stakeholders. By improving such CG practices, financial performance can also be better.

Table 4. Summary of Analysis

Variable	ROA	ROE
Public	+	+
Bod Ind	+	+
CA_Ind	+	+
Remun_Bod	-	-
Remun_Dir	+	+
DAR	-	-

4.5. The Effect of CG Structure on Financial Performance

The results of the statistical tests in table 3 and 4 show that independent board of commissioners, independent audit committees, and remuneration of directors have a significant and positive effect on ROA, with ownership and company size as the control variables. The size of audit committee also has a significant positive effect on ROE after being controlled by leverage and company size.

The size of the audit committee, independent board of commissioners, and independent audit committee have a significant positive effect on financial performance. This is in line with the research hypothesis. The size of the board of commissioners has no effect on performance. This result indicates that it has an effective effect on performance, not the size of board of commissioners, but independent commissioners, audit committees, and independent audit committees. The results of the statistical tests show that the size of audit committee, independent committee, and independent boards have a significant and positive effect on ROE with the control of leverage and firm size.

4.6 The Effect of remuneration on financial Performance.

The board of commissioners' remuneration has a negative effect on performance, while directors' remuneration has a positive effect on performance. This is probably because, first, the remuneration for the board of commissioners only adds to financial profligacy that gives no significant value for performance improvement; second, the remuneration is not based on the profits, in the sense that SOEs still give remuneration regardless they lose or profit. Remuneration for directors has a positive effect on the financial performance, indicating that remuneration effectively improves the performance of directors, but it is not effective, even counterproductive, to the performance of the board of commissioners. This means that remuneration at the executive level can improve performance, but at the supervisory level it does not improve performance.

4.7 The Control Variable on Financial Performance.

Leverage, as measured by debt to assets ratio (DAR), has a negative effect on performance, both ROA or ROE. This means that the higher the leverage (level of debt), the lower the performance. This indicates that an increase in assets caused by an increase in debt does not provide a return which is greater than the interest expense. DER (debt to equity ratio) as a control variable has a positive effect on ROE, meaning that the higher the DER, the better the ROE.

CONCLUSION

This study finds that remuneration at the executive level can improve performance, but at the supervisory level it does not improve performance. This means that perhaps the board of commissioners' remuneration only adds to the company's financial profligacy that does not provide any significant return for performance improvement. Leverage, as measured by debt to assets ratio, has a negative effect on performance. This means that the higher the leverage, the lower the performance.

Based on these results, several factors that positively affect performance can be identified; they are public ownership, independent board of commissioners, independent audit committee, the number of audit committees, and the remuneration for the board of directors. Factors that have a negative effect on performance are the board of commissioners' remuneration and debt to assets ratio.

5. IMPLICATION

This research contributes to the literature on the differences in remuneration effects. Not all remuneration can improve performance. Only remuneration at the executive level (executive or board of directors) can improve performance, while remuneration at the supervisory level cannot improve performance.

6. LIMITATION AND SUGGESTIONS

The research is limited in that it only identifies CG elements that have a positive and negative effect on performance. In fact, there are still many other factors that can affect the performance of SOEs in Indonesia, such as management, politics, social, macroeconomics, bureaucracy and others. An in-depth and comprehensive study is needed. Further research can examine this matter from the other side, for example the problem of bureaucracy in SOEs and the problems form the existence of board of commissioners, whether or not there is a political connection with the existing authorities.

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