
THE DIFFERENCES OF CORPORATE GOVERNANCE INFLUENCE ON STATE-OWNED ENTERPRISE AND NON STATE-OWNED ENTERPRISE'S PERFORMANCE: THE CASE OF INDONESIA

Irine Herdjiono*

Economy and Business Faculty, Musamus University in Indonesia

Abstract

This research aims to analyze the influence of audit committee, institutional ownership, and managerial ownership towards company's value. Moreover, it also analyzes the differences of influence on state-owned enterprise (SEO) and non SEO companies which are registered in Indonesian Stock Exchange. The sample consists of 48 SEO companies and 36 non SEO companies in Indonesian Stock Exchange. Purposing sampling method is used in this research. The used technique data analysis is linear regression. The result of this research shows that audit committee has significant influence on SEO value, while in non SEO it does not influence performance. In SEO companies, institutional ownership does not influence company value while in non SEO company it does. Managerial ownership does not show any influences on both SEO and non SEO companies. This research is the first research which compares the impact of corporate governance implementation on Indonesia SEO and non-SEO companies' value. This research implies that strengthening corporate governance aspects between SEO and non SEO companies in order to increase the company's value is needed.

Keywords: corporate governance, audit committee, institutional ownership, managerial ownership

JEL Classification: D4, G30

Introduction

Good corporate governance or GCG issue started to appear when Indonesia experienced a long-term crisis in 1998. At that time, Rupiah (Indonesian currency) decreased up to 80% and caused poverty. Based on some experts, the crisis was caused by

* Corresponding author - Irine Herdjiono - herdjiono@unmus.ac.id

Notă: am optat pentru publicarea versiunii în engleză, articolul fiind o traducere din limba maternă a autoarei.

bank's weak regulation towards inappropriate practices and lack of banking regulation (International Finance Corporation, 2014). In 1999, Indonesian Government established a National Committee on Corporate Governance (NCGG) which arranged the stipulation of corporate governance in Indonesia. Through the establishment of NCGG, it was expected to increase companies' performance, bring back investor trust, and make shareholders satisfy with companies' performance so that it automatically increases shareholders value and dividend.

There are two kinds of company based on its ownership in which SEO and non SEO. The differences take place on its purposes. Non SEO companies generally purpose to maximize their profit, meanwhile, SEO companies have the same purpose but they have other aims such as to maintain economic stability, to increase national prosperity, and for sustainable economic development (Wang, 2015; Kamal, 2010). In addition, public monitoring is higher in SEO companies than in non SEO companies (Bhat, Jebran, 2018). Furthermore, Government also has an authority to determine SEO companies' management.

In 1989, SEO's management was improved through the stipulation of Ministry of Finance Number 741/1989 that obligated SEO to make work and finance reports and then published them. It is a form of GCG programs implementation. By publishing finance report, it means SEO companies have applied GCG principle related to openness aspect. GCG implementation in SEO has been increased in 2002 through the implementation of Law of the Republic of Indonesia Number 19 Year 2003 on State-Owned Enterprise.

The example of the number of problems related to GCG implementation in Indonesia which occurs on SEO Company is the bankruptcy of Merpati Nusantara Airlines (MINA). The bankruptcy was seemingly caused by management incompetence and the stipulation of management of Garuda Indonesia. Based on the two problems above, GCG principle is very important in a company's management.

GCG has positive significant influence on companies' value. Company's value is one of the measurements of success in the implementation financial functions. The purpose of a company in long-term period is to optimize company's value to draw investor interest to invest their money in the related company. Before an investor makes capital investment, they will evaluate the capital first based on the information from capital market.

Research which discusses the differences of GCG influence on companies' value in Pakistan was conducted by Bhat and Jebran (2018). Bhat and Jebran used GCG aspect variables such as board size, board independence, and board meeting. The result of the research shows that there are differences of board size, board independence, and board meeting influence on companies' value. In SEO companies, board size has positive influence but not significant. Yet, in non SEO companies board size has negative influence and not significant. Board Independence has positive and significant influence in SEO companies while it has positive influence but not significant in non SEO companies. Frequency of board meeting does not give any influences on both of the company types but it has different influence on company's value. In SEO companies, the frequency of board meeting has positive influence but not significant while in non SEO companies it has negative influence but not significant.

This research observes other GCG aspects which have not analyzed by Bhat and Jebran (2018), which are audit committee and institutional managerial. This research also differentiates the influence of those aspects on SEO and non SEO companies.

Audit committee in a company has an important and strategic role in maintaining the credibility of finance report arrangement process and making sure that good corporate governance is implemented. A research by Aanu et al. (2014) and Amer (2014) concluded that audit committee does not influence company's value. Another result is shown by a research by Defond et al. (2005) that audit committee has positive and significant influence on company's values.

Institutional ownership is a party which monitoring companies' performance particularly as an effective monitoring mechanism in every decision taken in the management of the companies. Institutional ownership is an instrument which can reduce agency conflict between manager and the investor. Agency theory explain the relationship between owner as principal and manager as a agent (Jensen & Meckling, 1976). In a research by Uwuigbe and Olusani (2012), it shows institutional ownership has a positive influence on companies' value. In contrast, different result is shown by a research by Najjar (2015) that institutional ownership has positive influence but not significant over companies' value.

According to agency theory managerial ownership can reduce agency conflict between principal and agent. Bozek (2015) conclude that high managerial ownership may decrease agency conflict in a company because management will work harder to improve company's performance which are themselves. Meanwhile, another result found by Din and Attiya (2011) shows managerial ownership does not have influence over companies' value.

1. Literature and Hypotheses

SEO is a company for which part or the whole of the company is owned and controlled by the state (Bruton, Peng, Ahlstrom, Stan, & Xu, 2015). The theories which used to explain SEO are agency theory, property rights theory, transaction cost theory and resource based theory (Peng et al., 2016). Thus, this research will use agency theory to explain the differences of GCG influences over companies' value.

Based on agency theory, a company is a contract between the principle and agent (Jensen & Meckling, 1976). Related to SEO, agent is the manager and employee of the company while the principle is the state. Manager has more information related about the company than the principle. Hence, they have the tendency to make a decision which prioritizes their interest. The tendencies which prioritize manager interest above the principle interest may be minimized with good corporate governance.

Audit committee is assigned to give monitor on internal and external companies' auditor and ensure the management conducts periodical and appropriate corrective action and to control companies' weakness and discrepancy with the applicable policy, law, and regulation according to the decision of Chairman of Bapepam Number: Kep-643/PM/2012. BAPEPAM is capital market supervisory agency in Indonesia.

Audit committee in this research is measured by number of audit committee's members. The bigger number of audit committee, the better protection and control which are given in accounting and financial process. Then it leads to positive influence on companies' financial performance (Anderson *et al.*, 2004). The big number of audit committee will increase monitor in the company which will give good impact on the

companies' performance. Based on the explanation, the research hypothesis can be stated as follows:

H1: Audit committee influences companies' performance.

Institutional investors have two role in a company, 'exit policy' and 'voice disagreement' (Charfeddine and Elmarzougui, 2010). Exit policy is selling decision by institutional investor when dissatisfied with management decision. Exit policy will influence firm's stock price. Now, institutional investor more engage in corporate management decision. They attempt to influence management decision, instead of make exit policy.

The more institutional ownership, the more efficient companies' asset utilization and it acts as a prevention of wasting which conducted by the management (Faizal, 2004). A high institutional ownership level will influence a bigger monitoring effort by the investor so that it will prevent the potential action which causes companies' performance decrease. Institutional ownership has an important meaning in monitoring the management since it will encourage optimal monitoring. Based on the explanation, the research hypothesis is:

H2: Institutional ownership influences companies' performance.

By the existence of ownership, management motivation to do a better work will increase and automatically increases companies' performance. The management will more careful in taking decision in order not to harm the company. The bigger managerial ownership, the more maximal manager effort to increase companies' profit since the manager has profit share (Jensen & Meckling, 1976). The higher managerial ownership will make companies' performance increases.

Managerial ownership is deemed to be able to reduce agency problem since the size of managerial ownership reflects the same interest between manager and shareholders. By the managerial ownership, manager will be motivated to increase companies' performance.

Several kinds of research show the different influence of managerial ownership. There are two arguments which explain the managerial ownership influence on companies' performance. First, managerial ownership acts as incentives for the management and second overpower effect (Berga and Abula, 2017).

Based on the explanation above, the research hypothesis is:

H3: managerial ownership influences companies' performance.

2. Research Design

The research method is quantitative method in which collecting the data in form of number from several SEO and non SEO companies which are registered in Indonesian Stock Exchange in 2013-2016. The measurement of research variables may be seen in Table 1.

Table No. 1: Definition of Variables

Variables	Description	Measurement
Audit Committee (AC)	Audit committee is a group of people which appointed by the board of commissioners that responsible to help auditor in maintaining management independency	Audit committee size = \sum Audit Committee
Institutional Ownership (IO)	Institutional ownership is a proportion of capital ownership which owned by an institution	Institutional Ownership = $\frac{\text{the number of institutional ownership}}{\text{the number of shared institutional ownership}} \times 100\%$
Managerial Ownership (MO)	Managerial ownership is a proportion of capital ownership which owned by the manager of a company.	Managerial Ownership = $\frac{\text{the number of managerial ownership}}{\text{the number of shared capital}} \times 100\%$
Company's Performance (TQ)	Company's performance is measured by using Tobin's Q.	$\text{Tobin's } Q = \frac{(MVE+DEBT)}{TA}$ <p> <i>Tobin's Q</i> = company's performance <i>MVE</i> = Market Value of Equity- the price of one piece of capital x the number of shared capital <i>DEBT</i> = Debt amount <i>TA</i> = Total Asset </p>

3. Result and Discussion

3.1. Result

In order to understand the variables characteristic from the aspect of minimum, maximum, average, and standard deviation values for describing the data into clear and understandable information, the descriptive statistics of audit committee, managerial ownership, and companies' performances on SEO and non SEO companies can be seen on Table 2.

Table No 2: Descriptive Statistic of Audit Committee, Institutional and Managerial Ownership on SEO and non SEO companies

Variables	Companies	Minimum	Maximum	Mean	Std. Deviation
SEO					
TQ	48	0.49	3.82	1.39	0.67
AC	48	2.00	8.00	4.23	1.29
IO	48	51.00	90.03	67.48	11.55
MO	48	0.00	0.22	0.023	0.04
Non SEO					
TQ	36	-1.40	2.46	0.31	0.89
AC	36	3.00	4.00	3.08	0.28
IO	36	39.85	89.26	69.94	18.01
MO	36	0.01	61.26	8.51	19.30

Notes: Variables definitions in Table 1

The result of multicollinearity test can be seen on Table 3:

Table No 3: Multicollinearity Test

Variable	SEO		Non SEO	
	Tolerance	VIF	Tolerance	VIF
AC	0.54	1.85	0.28	3.50
IO	0.79	1.26	0.81	1.22
MO	0.93	1.07	0.28	3.51

Based on Table 3, the value of tolerance in each variable independent is bigger than 0,10 and the variance inflation factor (VIF) value of the fourth variables in which audit committee, institutional and managerial ownership is smaller than 10. Consequently, it can be said that between variables independent, multicollinearity does not occur.

Hypothesis test is using t-test. The result of t-test and multiple regression tests for SEO and non SEO companies can be seen in Table 4.

Table No 4: t test and ANOVA

Variables	SEO		Non SEO	
	Coefficient	Sig	Coefficient	Sig
Constant	1.55		0.72	
AC	0.21	0.02*	-0.68	0.42
IO	0.00	0.55	0.02	0.01*
MO	-1.87	0.42	-0.01	0.26
ANOVA		0.02*		0.004*
R	0.48		0.61	
R Square	0.23		0.38	
Adjusted R Square	0.16		0.30	

Notes: * significant at 5 percent level

Based on table 4, the significant level of audit committee influence on SEO performance is 0.02, meanwhile, in non SEO it is 0.42. It proves that audit committee has positive and significant influences on SEO companies' value, while in non SEO companies it does not show any influences.

The significant level of institutional ownership influence on SEO performance is 0.55 and in non-SEO it is 0.01. It shows that institutional ownership does not have influence on SEO companies' value but it has influence in non SEO companies.

The significant level of managerial ownership influence on SEO companies is 0.42. Meanwhile, in non-SEO companies it is 0.26. It shows that managerial ownership does not have influence in either SEO or non SEO companies.

3.2. Discussion

Audit Committee Influence on Companies' Performance

The average number of audit committee on SEO is 4,2 and in non-SEO it is 3. It shows that the number of audit committee in SEO is bigger than those in non SEO. Thus, audit committee in SEO companies is considered as an important matter. Lin et al. (2008) conclude that based on the investor, creditor, audit committees members, company officer and auditors perception, audit committee role is believed may increase companies' image by implementing good corporate governance. Audit committee is deemed to be able to increase communication between the board of directors and auditor, as well as it mediates conflict between the management and auditor.

Audit committee has a role in monitoring the process of financial report which has been arranged through investigation process with integrity and objectivity from the auditor. Related to money manipulation, audit committee will help to check the financial report so it can be accounted for. The existence of clear and transparent finance information may reduce wrong information. Audit committee will increase the credibility of finance report effectively and help the board of commissioner to obtain the trust from shareholders. Besides, audit committee can evaluate the internal control process to generate a good quality finance report. Thus, it can be seen that audit committee existence may decrease

management dishonesty and convince investor to entrust their investment on the related company; thus, companies' value will increase as well (Rouf, 2011)

Audit committee on SEO companies is considered can minimize conflict between the agent and principle based on agency theory perspective. In contrast, in non SEO companies, audit committee exists only because of the requirements of its existence. The regulation about audit committee requirement is at least consists of 3 people based on Capital Market Supervisory Agency Regulation Kep 29/PM/2004 about the Regulation Number IX.1.5. This result consistent with Cai et al (2015) that conclude audit committees have a stronger impact on SEO.

Institutional Ownership Influence on Companies' Performance

Institutional ownership on SEO companies does not influence the companies' value. Institutional ownership in this case is the State and it is considered less effective since there is political element. The ownership regulation in Indonesia may be included as unique. SEO is regulated by one ministry in which SEO ministry. It is different with SEO in general which divided in department or ministry based on its field. The result of this research support Kim's doubt (2018) that questioning the possibility of SEO ownership success in Indonesia which managed by state-owned holding companies. Yet, in non SEO companies, institutional ownership does not have influence.

Even does not influence the companies' value, institutional ownership has positive relationship with companies' value. This result support Pound (1988) proposes efficient monitoring hypothesis that says institutional ownership more effective monitoring than small or individual shareholders

Managerial Ownership Influence on Companies' Performance

In SEO and non SEO companies, managerial ownership does not show any influences on companies' performance. In general, managerial ownership in Indonesian companies is still low. Thus, it is not enough for management to have a controlling right in managing asset to obtain companies profit (Nuzula and Lokuwaduge, 2017). The result of the research is in accordance with research by Ullah and Arshad (2015), Warganegara et al (2013), Berg and Abula (2017) that concludes managerial ownership in SEO companies does not have influence on companies' performance in Pakistan and Poland.

The result of the test also shows that managerial ownership has negative direction on companies' performance. It is in line with research by Warganegara et al (2013). Claessens et al. (2000) and Johnson et al., (2000), they conclude that in Asian countries, when at the same time a manager is also a shareholder, the manager will tend to misuse and harm minority interest.

In SEO and non SEO companies, the average of managerial ownership is 8,51% and 0,023% have not raised the companies' performance. This research is in accordance with research by Ruan et al., (2011) that states when managerial ownership is below 18%, it will have negative correlation with companies' performance. In this research, managerial ownership and companies performance is negatively related. In this low ownership, management does not have enough authority in taking an advantageous decision for the

company. Management only focuses on self-incentives as employee rather than the owner of the company.

This research implies on the corporate governance practice in a company needs to be increased in order to increase company's value. A total corporate governance implementation is really hard and needs a long time. Kurzeja and Novak (2017) state that in a company with low agent and principle conflict, their mechanism of required corporate governance is considered too expensive.

Based on the research, the big or small managerial ownership does not influence companies' value. Managerial ownership does not help in integrating manager and shareholders interest and does not emerge an ownership feeling which may motivate management to increase companies' performance and then leads to the increasing of companies' value. This research is in line with a research by Din and Attiya (2011) that shows managerial ownership does not have influence on companies' value.

Conclusion and Suggestion

This research aims to examine the influence of GCG factors on companies' performance that is measured with Tobin's Q. As in general, in developing country GCG implementation is not fully conducted and still interesting to be examining its development and effect on the company.

The result of the research shows that there are differences of influence on GCG implementation in SEO and non SEO companies. The result shows that audit committee in SEO has significant influence on companies' value while in non SEO companies it does not have influence. In SEO companies, institutional ownership does not have influence on companies' value, meanwhile, in non SEO companies it show an influence on companies' value. Managerial ownership does not show any influences on SEO or non SEO companies. This research is the first research in Indonesia which compares the differences of corporate governance influence on companies' value between SEO and non SEO.

Further research needs to consider other factors such as purpose conflict between maximize profit and national purpose, political intervention, transparency which can influence SEO, since according to Kamal (2010), those problems are generally faced by SEO, including in Indonesia.

Bibliography

- [1] Aanu, O.S., Oduanones, I.F. and Foyeke, O.I., 2014. Effectiveness of Audit Committee and Firm Financial Performance in Nigeria: An Empirical Analysis. *Journal of Accounting and Auditing: Research and Practice*: 1–11
- [2] Anderson, R.C., Mansi S.A. and Reeb D.M., 2004. Board characteristics, accounting report integrity and the cost of debt. *Journal of Accounting and Economics*, 37: 315–342
- [3] Amer, Mrwan, Aiman A. Ragab and Shehata Elsayed Shehata, 2014. Audit Committee Characteristics And Firm Performance: Evidence from Egyptian Listed

- Companies. *Proceedings of 6th Annual American Business Research Conference*, 9–10. New York
- [4] Berga A - Berke, Dowladbekova I., Ābula M., 2017. Managerial Ownership And Firm Performance: Evidence Of Listed Companies In The Baltics, *Polish Journal Of Management Studies*. Vol.15 No.2:273-282
- [5] Bhat, Ullah Kalim, Yan Chen, Khalil Jebran, Niaz Ahmed Bhutto, 2018. Corporate governance and firm value: a comparative analysis of state and non-state owned companies in the context of Pakistan, *Corporate Governance: The International Journal of Business in Society*, Vol. 18 Issue: 6: 1196-1206
- [6] Bozek, Agnieszka, 2015. Positive Psychology Capital Concept: A Critical Analysis in the Context of Participatory Management. *Management and Business Administration. Central Europe*, 23(3): 19–31
- [7] Bruton, G. D., Peng, M. W., Ahlstrom, D., Stan, C. V., Xu, K., 2015. State-Owned Enterprises Around The World As Hybrid Organizations. *Academy Of Management Perspectives*, 29(1): 92–114.
- [8] Cai, Charlie X., David Hillier, Gaoliang Tian, Qinghua Wu. 2015. Do audit committees reduce the agency costs of ownership structure? *Pacific-Basin Finance Journal* Volume 35, Part A, November: 225-240.
- [9] Charfeddine, Lanouar, Abelaziz Elmazougui, 2010. Institutional Ownership and Firm Performance: Evidence From France. *The IUP Journal of Behavioural Finance*, Vol VII, No.4:35-46
- [10] Claessens, S., Djankov, S. And Lang, L. H. P., 2000. The Separation Of Ownership And Control In East Asian Corporations. *Journal Of Financial Economics*, 58 (1/2): 81-112.
- [11] Defond, M. L., Hann, R. N., and X.S. Hu. 2005. Does The Market Value Financial Expertise On Audit Committees Of Boards Of Directors? *Journal of Accounting Research*, Vol. 43, pp. 153-193.
- [12] Din, Shahab-u – and Javid, Attiya Yasmin, 2011. Impact of managerial ownership on financial policies and the firm's performance: evidence Pakistani manufacturing firms. *International Research Journal of Finance and Economics*, 81: 13–29.
- [13] Faisal, 2005. Analisis Agency Cost, Struktur Kepemilikan, dan Mekanisme Corporate Governance. *Research and Accounting Journal of Indonesia*. Vol. 8, No. 2, May: 175-190.
- [14] International Finance Corporation. 2014. The Indonesia Corporate Governance Manual First Edition. Jakarta-Indonesia.
- [15] Jensen, M.C. and Meckling, W.H., 1976. Theory of the firm: managerial behavior, agency costs, *Journal of Financial Economics*, 3(4), 305–360.
- [16] Johnson, S., Boone, P., Breach, A. And Friedman, E., 2000. Corporate Governance In The Asian Financial Crisis. *Journal Of Financial Economics*, 58 (1/2): 141-186
- [17] Kim, Kyunghoon, 2018. Matchmaking: Establishment Of State-Owned Holding Companies In Indonesia. *Asian & The Pasific Policy Studies*. Volume 5, Issue 2 May: 313-330.

- [18] Kamal, Milo. 2010. Corporate Governance And State-Owned Enterprises: A Study Of Indonesia's Code Of Corporate Governance. *Journal Of International Commercial Law And Technology* Vol. 5, Issue 4:206-224.
- [19] Kurzeja, Jan, Jiri Novak. 2017. Corporate Governance Quality And A Firm's Adaptation To Competitive Threats. *Finance A Úvěr-Czech Journal Of Economics And Finance*, 67 No. 1:53-78
- [20] Lin Z. Jun, Jason Z. Xiao, Qingliang Tang. 2008. The Roles, Responsibilities And Characteristics Of Audit Committee In China. *Accounting, Auditing & Accountability Journal*. Vol. 21 No. 5: 721-751.
- [21] Najjar, Dana-AL, 2015. The Effect of Institutional Ownership on Firm Performance: Evidence from Jordanian Listed Firms. *International Journal of Economics and Finance*, 7(12): 97-105.
- [22] Nuzula, Nila Firdausi, Chitra Sriyani De Silva Lokuwaduge, 2017. Do Ownership Structures Really Matter? A Study Of Companies Listed On The Indonesia Stock Exchange. *Asia-Pacific Development Journal*. Vol. 24, No. 1:55-82
- [23] Peng, Mike W., Garry D. Bruton, Ciprian V. Stan, Yuanyuan Huang, 2016. Theories Of The (State-Owned) Firm. *Asia Pac J Manag* 33:293-317
- [24] Pound J., 1988. Proxy Contest and the Efficiency of Shareholder Oversight. *Journal of Financial Economics*. Vol.27, No. 2: 595-612.
- [25] Rouf, A., 2011. The Relationship between Corporate Governance and Value of the Firm in Developing Countries: Evidence from Bangladesh. *The International Journal of Applied Economics and Finance* Vol.5 (3), 237-244.
- [26] Ruan, Wenjuan, Gary Tian Gang, Shiguang Ma, 2011. Managerial Ownership Dan Firm Value: Evidence From China's Civilian-Run Firms. *Australasian Accounting, Business And Finance Journal*, 5(3): 73-92.
- [27] Ullah, Muhammad Rizwan Ullah, Farwa Amjed, Muhammad Gulbaz Arshad, 2015. State Ownership, Corporate Governance And Firm Performance: A Note On Pakistani Firms. *International Journal Of Linguistics, Social And Natural Sciences* 1(1):18-23
- [28] Uwuijbe, U. and Olusanmi, O., 2012. An empirical examination of the relationship between ownership structure and the performance of firms in Nigeria. *International Business Research*, 5(1): 208-215.
- [29] Wang, Zhaofeng, 2012. Corporate Governance Under State Control: The Chinese Experience. *Theoretical Inquiries In Law* 13.2 : 487-502.
- [30] Warganegara, D. L. , Y. R. I. Hutagaol, M. A. Saputra, Y. Anggraini, 2013. State-Owned Enterprises And Corporate Governance Strength: Evidence From Indonesia. *Int. J. Manag. Bus. Res.*, 3 (4): 325-335