

Factors that Influence Financial Performance of Indonesian State-Owned Enterprises (SOEs): Intervening Role of Leadership Cost

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Abstract

Financial performance is a subjective indicator of how effectively an organisation can use assets and produce profits from its primary operating mode. The term is often used over a given time as a general indicator of a company's overall financial health. Today, numerous Stated-Owned Enterprises (SOEs) in Indonesia faces losses and high dependence on government subsidies. Thus, this study is written to examine the intervening role of cost leadership in the effect of financing strategy, investment policy, managing before interest and taxes and earnings management on the financial performance of Indonesian SOEs. This quantitative study utilises time-series data of SOEs that face financial losses, difficulties, and high dependence on government subsidies. A total of 54 of 115 SOEs registered in 2020 were selected as research sample in this study. The result of this study shows that the leadership cost has been intervening the effect of financial strategy, investment policy, managing before interest and taxes, and earning management on Indonesia SOEs financial performance. In conclusion, this study has been successfully identified and examined the role of leadership cost as an intervening variable in the relationship of financial strategy, investment policy, managing before interest and taxes, and earning management on Indonesia SOEs financial performance. This study implies that using a leadership cost variable measured on the basis of matching principle in reconciling cost income in accounting. We suggest that the company management needs to prepare operational strategies and policies that can increase the SOEs financial performance. This study can also help the government and practitioners consider the variable of leadership cost in intervening the relationship of financial strategy, investment policy, managing before interest and taxes, and earning management on Indonesia SOEs financial performance.

Keywords

Financial strategy, investment policy, managing before interest and taxes, and earning management, Stated-Owned Enterprises, financial performance, Indonesia context

1. Introduction

Financial State-Owned Enterprises (SOEs) performance has attracted numerous parties, including academicians, to conducting further research due to 115 SOEs were suffered losses and needs government subsidies. The losses of SOEs are influenced by various factors so that its important to find out the key factors that determine the success of SOEs financial performance. In measuring the company performance, it not solely on the cost of sale. It also involves the management of authorities and policies. There are several criteria for assessing SOEs' performance flagship, such as marketing, which consist of financial and market outcomes. When the management focuses on financial performance, all strategies and policies are carried out based on financial management principles, such as viability, time value of money, cash, and others (Keowin et al., 2011). When the orientation of decision management based on

the input and output principle is optimised, the criteria for others' performance will follow in the system because management requires the criteria mentioned in the moving source power internal company and take advantage of opportunities externally as much as possible. It is where the importance of attention to the variable main that affect the performance of the financial state enterprises so that the policy can be directed to the variables mentioned, and knowing how great the level of significance of the influence of variables against the performance of finance are projected SOEs.

The following phenomenon of loss of state-owned companies referred to above. The researchers are motivated to examine in comprehensive key factors or principal variable, which affects the featured financial SOEs' performance. For demonstrating the importance of cost leadership in the financial performance of SOEs, it is necessary to explain some related literature; (a) cost leadership ratio ordinary referred to as leadership or excellence costs are emphasising on the product with the cost per unit is very low without reducing the quality and service to consumers. (b) Porter (1998) suggests that many companies that do not understand the behavior of the cost and how to draw up a strategy to get opportunities through the improvement of the position of the structure of fees that, because the costs are relatively low usually puts the company in a position which is advantageous from the competitors. (c) Stankeviciute (2012) argued that cost leadership emphasises three strategies, namely (1) strategy of low cost which emphasises the costs as low as possible but does not overlook other aspects, such as quality of service or product, (2) s Strategy differentiation, the possibility of charging a higher than average price, because the company provides something unique or different, and (3) strategies to focus on specific groups of customers. Cost leadership is defined as an effort management company to produce a product with a cost as low as possible, and the prices are relatively more costly than the price of the market are available.

Several independent variables influence cost leadership, so the analysis model in this study places cost leadership as an intervening variable influenced by several independent variables and affects financial performance as the dependent variable. This research contributes to filling the methodological gap, namely using a new concept or novelty in the cost leadership measurement method. The measurement of the variables is, expected to be a tool for management to measure and analyse the cost leadership is unrealistic, become a reference for the study cost leadership, and fill the weakness of measuring cost leadership. Thus, this study is written to examine the intervening role of cost leadership in the effect of financing strategy, investment policy, managing before interest and taxes and earnings management on the financial performance of Indonesian SOEs.

2. Literature Review

2.1 Agency Theory

For the first time, the agency theory put forward by Jensen and Meckling (1976) states that between company managers as agents and owners as principals, there is a contractual relationship. The company owner gives responsibility to the manager in making decisions. This contractual relationship is a conflict of interest, namely maximising the company owner's profit and the interest of maximising the manager's profit. The agency theory is expected to provide confidence to investors that it will accept a return following funds invested. Owners of companies and managers require different information; namely, the owners want to measure the performance of managers, while managers want to know information related to the prospect of future front companies.

2.2 Stated Owned Enterprises Financial Performance

Key performance indicators or KPIs SOE as a basic assessment of accountability for the Board of Directors regarding the level of success of SOE achieve performance targets in the period. KPI is written into the Management Contract as a performance agreement between the Board of Directors, the Board of Commissioners / Board of Trustees, and the GMS / Minister. Measure and report the progress of the achievement of the target of the performance of the set. The KPI from the financial and market perspective refers to the company budget work plan (RKAP) of the BUMN concerned. In contrast, the other KPI perspectives refer to other official planning documents. Criteria for assessment of performance featured or KPKU SOE is designed to provide an approach (method/system) integrated with the management of SOEs' performance. It intended to result in the delivery of value that always increases to customers and stakeholders' interests, so that the impact on the sustainability of the enterprise (company sustainability), and an increase in the effectiveness and capability of SOEs as a whole.

Criteria for assessment of performance superior to SOEs is the adoption of the criteria of the Malcolm Baldrige Performance which comprises the top seven categories with the value of the performance as much as 1000 points as described below this, namely : (a) leadership 110 points, (b) plan strategically 85 points, (c) focus on customer 85 points, (d) measurement, analysis, and management of knowledge 90 points, (e) focuses on workforce 85 points, (f) focus on operations 85 points, and (g) results or business results 450 points. KPIs are used to measure and assess the

performance of the Board of Directors in the management of companies based approach KPKU consists of 5 (five) perspective, namely: the perspective of product and process, the perspective of focusing on the customer, the perspective of finance and markets, perspectives focused energy work, the perspective of leadership and responsibility in charge society. Management companies identify and define KPI for each individual to five perspectives such as framework KPKU, with attention to a relationship linkages are mutually integrated. Meanwhile, each perspective's weight is set according to the rate of growth of the business, namely the growth of $> 5\%$, growth of $5\% - 15\%$, the growth of $0\% - 5\%$, and growth $< 0\%$, as the table below it.

2.3 Research Framework

Analysis of factors that affect the performance of finance featured, as seen in Figure 1. These five variables keys as variable independent that affect the performance of financial featured either be directly or are not directly through the variables intervening cost leadership ratio. To avoid the influence of variables other is not accounted for as variable independent. The variables are placed as a variable control to avoid the possibility of bias if not included in the analysis. In this analysis, six control variables are used, namely Firm size ($X_6 \text{ SIZE}_t$), Government subsidy ($X_7 \text{ SUB}_t$), D = 1 subsidy, D = others, Cash flow from operating ($X_8 \text{ CFO}_t$), Contribution margin ($X_9 \text{ CM}_t$), Revenue growth ($X_{10} \Delta \text{ REV}_t$), and return on equity ($X_{11} \text{ ROE}_t$).

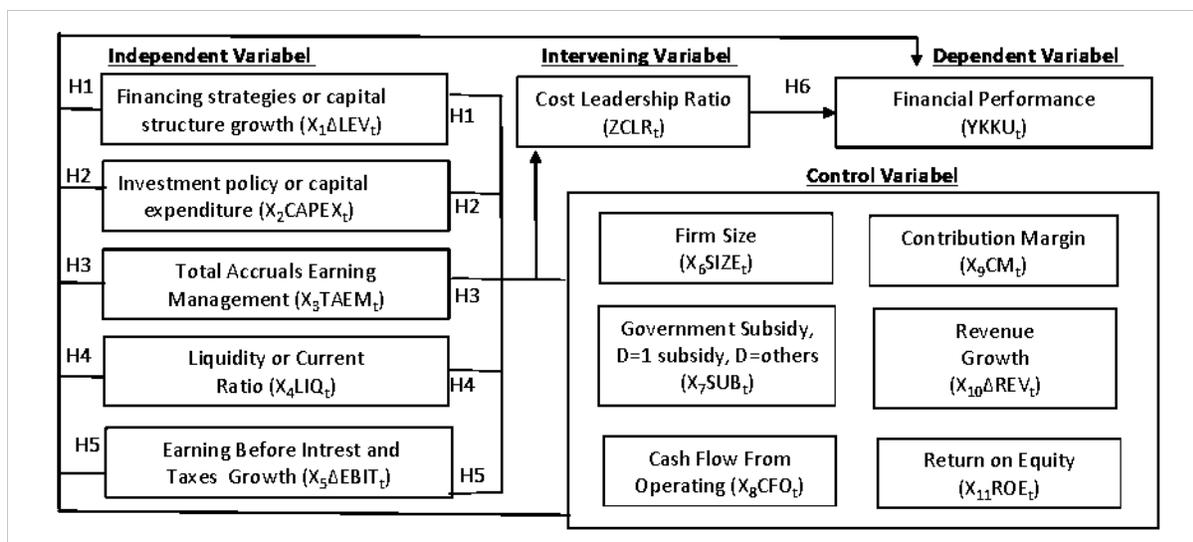


Figure 1: Research Framework

The independent variables consist of : (a) Financing strategy or capital structure growth ($X_1 \Delta \text{ LEV}_t$) which is a strategic decision by company management in determining the composition of the capital structure during the tightening period (t) which can affect the superior financial performance of BUMN. (b) Policies investment or capital expenditure ($X_2 \text{ CAPEX}_t$) is an opportunity to increase the revenue that can encourage the improvement of state-owned enterprises' profitability and service. The variable is positively and significantly to the cost leadership ratio and the performance of financial featured. (c) Total Accruals Earning Management ($X_3 \text{ Team}_t$) or management profits that use transaction revenues and costs are accrued to affect the performance of finance. The practice of management of profit can affect the amount of value cost leadership ratio and the performance of financial featured. Revenues period ahead ($t + 1$) are recognised as revenue period now (t) and while the cost of the period is now charged or are recognised as cost of future ahead ($t + 1$) so that the performance of the financial period now (t) is better or increased. (d) Liquidity or a current ratio ($X_4 \text{ LIQ}_t$) as a variable 1 shows that ladies companies pay liabilities finance. It due so that the conditions of liquidity that are not liquid will cause a loss of trust partner companies, difficulty obtaining a purchase loan with the cost of cheap capital that affects the cost leadership ratio and the financial performance of BUMN. (e) Earnings before int e rest and taxes growth ($X_5 \Delta \text{ EBIT}_t$) affect the product's cost, especially for components average fixed cost is getting decreased every increase volume of production or sales, so the added variable is compared positively with cost leadership and increase performance finance.

2.4 Hypotheses Development

Financing Strategy or Capital Structure

Financing strategy is the management company's decision in determining the source of funding that will be used to finance activities of operation and investment. Sources of funding in the line of great can be selected with alternative funding external or debt and funding internal or capital itself. The company's strategy is to choose the composition of the company's funding or financing structure to achieve optimal conditions in achieving company performance. Decision election funding lies in comparing the returns of investment that would be obtained compared with the cost of capital or the cost of capital for the acquisition and use of sources of funds. Sesotyaningtyas' research (2012) found that leverage or capital structure positively affects company performance. Novita (2015) reported that the capital of the company's profitability with the level of the significant p-value of 0.000 against the return on assets and 0.021 against the return on equity. Kapopoulos and Sophia (2007) found that capital structure has a positive and significant effect on the company's financial performance.

H1: Changes in capital structure have a positive and significant effect on the cost leadership ratio and impact the financial performance of leading State-Owned Enterprises.

Investment Policy or Capital Expenditure

A policy of investment in the proxy to capital expenditure carried out by a company reflected in the value of assets remains recorded in the report positions finances. Rahmiati and Sari (2013) in a research report some understanding of capital expenditures or CAPEX, as stated by the experts, namely : (a) Smith (1983) in his study stated that the expenditure in some large is expected to able to provide an increase in profits is sustainable as long as two years or over. (b) Carter and Usry (2002) stated that the capital expenditure is the cost or funds intended to provide benefits in the period that will come in and are reported as assets. (c) Horngren (2009) suggests that capital expenditure is the expenditure that improves the capacity or efficiency of assets or that extends the period of benefit. (d) Gitman (2009) defines that capital expenditure is a company expenditure that is expected to generate profits over more than one year. From a review, some understanding regarding CAPEX disclosed the experts are. CAPEX is all forms of expenditure which are also allocated, repair or improvement of the quality of assets that produce benefits long-run. Definition of assets that have a future benefit period of long- matched with the sense of assets fixed according to standard accounting financial or IFRSs (2009) which states that the assets that remain are assets of intangibles which is obtained in the form of ready-made or to be built more in advance, which is used in the operation of the company, not intended for sale in the context of normal company activities and has a useful life of more than one year. Referring to the notion that, then CAPEX is all forms of expenditure which are allocated besides, repair or improvement of the quality of assets remains.

H2: The investment policy or capital expenditure has a positive and significant effect on the cost leadership ratio and has an impact on the superior financial performance of State-Owned Enterprises

Total Accruals Earning Management

Variables independently total accruals earnings management is the action that is carried out to influence the statements of financial or earnings management by using techniques accruals in recording transactions financial. Measurement of the variable total accruals earning management, according to Jones (1991), Dechow (1995), and Kasnik (1999), which is as stated in sub-chapter 3.3 measuring the total accruals earning management variable. Kothari, Leone, and Wasley (2002) in their research on Performance Matched Discretionary Accrual Measures. Performance Matched Discretionary Accrual Measures using variable total accruals as that used in the model of Jones (1991) that the total accruals are measured by the difference between the net income with cash flow operations. In its findings stated that the total accruals were influenced by positive and exhibited significantly by the variable: Book / Market Sales Growth, E / P Ratio, Size, and Cash Flows.

H3: Total accruals earning management has a positive and significant effect on the cost leadership ratio and impacts the superior financial performance of State-Owned Enterprises.

Liquidity

The ratio of liquidity is one of the variable keys that affect cost leadership because the company with a liquid level is believed by the company supplier or partner of the business. So that facilitate obtaining purchase in credit and ease the procurement of materials mangrove or goods are required for operating the company. In contrast to companies that experience difficulties liquidity will face difficulties buying in credit with the price economically because of losing the trust of partners efforts or supplier. It impacts the price of materials raw or goods that will be used in business, thus affecting the cost of leadership, which also impacts companies' financial performance. Research previously (Nurhayati, 2013) proves that the liquidity significantly impacts the company's value, which listed on the Stock Exchange Indonesia.

H4: Liquidity or current ratio has a positive and significant effect on the cost leadership ratio and impacts the superior financial performance of State-Owned Enterprises.

Growth of Earning Before Interest and Taxes

Sinaga's research, MH (2018) uses the profitability variable as a moderating variable in researching factors that affect firm value. By operating companies show that growth in profitability as variable moderators will strengthen or weaken the effect of variables independent of SOEs' financial performance. Based on KTI empirically that shows that increasingly higher earnings before interest and taxes, or Δ EBIT, then further strengthen or weaken the effect of the variable structure of capital, capital expenditure, and earnings management on financial performance. So the hypothesis proposed in the study is, as the hypothesis H5 following this. Previous research related to earnings before interest and taxes, among others, Brown and Kumar (2001) reported that earnings before interest and taxes or operating income had a positive and significant effect on the company's financial performance, marked by an increase in stock prices. Nurhayati (2013), in her research, reports that earnings before interest and taxes have a positive and significant effect on company performance so that it increases company value on the Stock Exchange.

H5: Earning before interest and taxes has a positive and significant effect on the cost leadership ratio and impacts the superior financial performance of State-Owned Enterprises.

Cost Leadership Ratio

Cost leadership, namely management companies' efforts to produce products with costs as low as possible, and the prices are relatively more costly than the market price, are available. While cost leadership ratio, as the ratio between revenue average the cost of an average product that is sold to consumers. Measurement of the cost leadership variable in previous studies are (a) Likert scale approach, such as in the research of Coeurderoy and Rodolphe (2004), Tarigan (2009), Narentheren and Haim (2013), Hilman and Narentheren (2017); (b) an approach with a proxy for the ratio of total sales to total assets, such as in research by Birjandi, Samira, and Hashem (2012), Birjandi, Negar, Somayeh, and Masoud (2014), Ilyas, Ihtesham, and Muhammad (2018); (c) the discounted benefit-cost approach, as used in the research of Tao, Liu, Huang, Tam (2011), Ali Amjad (2005), and Gitman and Chad (2012). Revenue encompasses the entire revenue operations both on the sales and earnings of operational others are related to the business principal companies. Simultaneously, the cost of operations is the overall cost of the operation, the company issued within a period specified, for example, one year. While the average two periods respectively, are intended to anticipate fluctuations are not normal between periods. It caused by various factors, such as the recording of accounting accruals in recognition of revenue and costs, and the condition of external others such as the economy macro, changes in exchange rate exchange foreign and influence policy of the government.

Model newness or novelty measurement of cost leadership which has modified on research these are :

$$ZCLR_t = \frac{(REV_t + REV_{t-1})/2}{(C_t + C_{t-1})/2}$$

Where: $ZCLR_t$ = cost leadership ratio period t, REV_t = revenue or revenue period t, REV_{t-1} = revenue or revenue in the previous period, C_t = cost or operating costs period t and C_{t-1} = cost or operating costs the previous period.

H6: Cost leadership ratio ($ZCLR_t$) functions as an intervening variable and has a significant positive effect on leading financial performance ($YKKU_t$) of State-Owned Enterprises.

3. Methodology

3.1 Population and Sample

The study is using a sample-based method Slovin which will be selected from a population of as many as 115 state-owned enterprises in accordance which were reported on by the office of the ministry of state Enterprise in 2018. Research is doing observations in parentheses period of five years last ie 2014 - 2018 is based on the consideration of the cycle of plan -term Long- company or RJPP company, because the plan period short which is programmed every year is a derivative of the plan period long five years so that one cycle RJPP reflect the conditions of operation is more comprehensive. It's become a reason that strong that the election of one cycle RJPP for the period representing the operational performance of the featured financial SOEs. Data research uses panel data, which is a combination of time-series data or some SOEs with the period of the same, and the time series data 5 year period 2014 -2018, so the number of observations as much as 270 company-years (54 SOEs x 5 years = 270 the state-owned year).

Research Model

The causal relationship examined in the research is to use capital regression as proposed first time by Francis Gultom (1886) and supported by Karl Person and Lee (1903) in Guajarati (2016) and Suliyanto (2011). The selection of the

model used is appropriate to the purpose of the research to choose the independent variables that impact the performance of financial features, or an effect is not directly through the variables intervening cost of leadership ratio. The model analysis uses the variable control for controlling the effect that does not cause bias when taking into account in the model analysis. In the analysis of statistical studies have used statistical tests, namely : (a) test of the significance of the F-statistic to determine the level of significance between overall the independent variable on the dependent variable, (b) test the significance of the t-statistic to determine the level of significance of the relationship is partial between each independent variable on the dependent variable, (c) classic assumption test of multicollinearity, autocorrelation, heteroscedasticity, and normality test, (d) adjusted R-Square to determine the ability of the regression model to explain the phenomenon under study. Furthermore, the equation regression was obtained from the calculations' results to predict phenomena or prove the hypothesis proposed in the study. The coefficient of regression showed the number influence of each independent variable to variable dependent. While the direction of the influence of variables independent such, either negative or positive will prove consistency with prediction research. The model analyses were used in the study of this, consisting of a model analysis to test the hypothesis of the influence of variables independent of the variables intervening, the model analysis to test the hypothesis of the influence of variables independent of the variable dependent performance of financial featured, and models of analysis to test the effect of variable intervening against the variable dependent performance of financial featured, as follows this.

Analysis model to test the hypothesis of the direct effect on financial performance :

$$YKKU_t = \beta_0 + \beta_1 X_1 \Delta LEV_t + \beta_2 X_2 CAPEX_t + \beta_3 X_3 TAEM_t + \beta_4 X_4 LIQ_t + \beta_5 X_5 \Delta EBIT_t + \beta_6 X_6 SIZE_t + \beta_7 X_7 SUB_t + \beta_8 X_8 CFO_t + \beta_9 X_9 CM_t + \beta_{10} X_{10} \Delta REV_t + \beta_{11} X_{11} ROE_t + \beta_{12} ZCLR_t + e_t \dots\dots\dots(1)$$

The analysis model to test the hypothesis of the effect of the independent variable on the intervening variable and its impact on financial performance :

$$ZCLR_t = \beta_0 + \beta_1 X_1 \Delta LEV_t + \beta_2 X_2 CAPEX_t + \beta_3 X_3 TAEM_t + \beta_4 X_4 LIQ_t + \beta_5 X_5 \Delta EBIT_t + \beta_6 X_6 SIZE_t + \beta_7 X_7 SUB_t + \beta_8 X_8 CFO_t + \beta_9 X_9 CM_t + \beta_{10} X_{10} \Delta REV_t + \beta_{11} X_{11} ROE_t + e_t \dots\dots\dots(2)$$

An analysis model to test cost leadership as an intervening variable and its effect on financial performance :

$$YKKU_t = \beta_0 + \beta_1 ZCLR_t + e_t \dots\dots\dots (3)$$

Where: $YKKU_t$ = financial performance, $ZCLR_t$ = cost leadership ratio, $X_1 \Delta LEV_t$ = leverage or capital structure growth, $X_2 CAPEX_t$ = capital expenditure, $X_3 TAEM_t$ = total accruals earning management, $X_4 LIQ_t$ = liquidity or current ratio, $X_5 \Delta EBIT_t$ = earning before interest and taxes, $X_6 SIZE_{t-1}$ = firm size, $X_7 SUB_t$ = government subsidy, $\beta_8 X_8 CFO_t$ = cash flow from operating, $\beta_9 X_9 CM_t$ = contribution margin, $X_{10} \Delta REV_t$ = revenue growth, $X_{11} ROE_t$ = return on equity, β_0 = constant, $\beta_1 \dots \beta_{12}$ = coefficient, e_t = error.

4. Results and Discussion

Research is giving contributions in the measure and analyse the performance of financial SOEs. Contributions are becoming contribution in the development of the science of knowledge, especially in analysing the performance of finance with a novelty on the measurement of cost leadership, input for management in decision making, information for emerging stock in terms of this government through the ministry of state enterprises concerned to evaluate the performance of management in the achievement of the targets set by holders of shares, and as a reference like a researcher future that is coming. The study is to give a contribution to the prediction of the performance of the financial and predicted cost leadership SOE acquired by the model estimation data and secondary. Using the model analysis and data hypothetical, the simulation SPSS and estimation equation regression were obtained. By using the model of the estimated cost leadership and data hypothesis, obtained results of simulation SPSS following this.

Table 1. Hypotheses testing

Model	Unstandardised Coefficient		Standardised Coefficient	t	Sig.
	B	std.Error	Beta		

Constant	0.891	0.076		11.732	0.000
X1LEV	0.028	0.024	0.214	1.183	0.302
X2CAPEX	-0.021	0.011	0.244	1.836	0.140
X3TAEM	0.016	0.029	0.125	0.561	0.605
X4LIQ	0.112	0.035	0.82	3.248	0.031
X5EBIT	0.011	0.017	0.087	0.674	0.537

Dependent variable: ZCLR

Based on the results of SPSS be obtained estimation equation regression cost leadership following this.

$$ZCLR_t = 0.891 + 0.028 X_1\Delta LEV_t - 0.021 X_2CAPEX_t + 0.016 X_3TAEM_t + 0.112 X_4LIQ_t + 0.011 X_5\Delta EBIT_t$$

Based on the data for the last three periods, it can be seen that the deviation between the realisation and the estimate. The more small deviation of these, then getting closer to the reality of the measurement, as stated below this.

n	B0	B1	B2	B3	B4	B5	Estimate	Deviation (Est - Real)	
							Est_ZCLR	(+/-)	%
	XCLR	X1LEV	X2CAPEX	X3TAEM	X4LIQ	X5EBIT			
2017	1.20	1	2	2	2	4	1.18	-0.02	-2%
2018	1.40	3	4	4	4	3	1.44	0.04	3%
2019	1.30	3	3	2	3	1	1.29	-0.01	-1%

Based on the prediction that, prove that the research can give contribute to the management of SOEs, especially in terms of (a) M forces indiscriminately in preparing policy program work term short and term length to improve the performance of the company and improve the ratio of cost leadership towards the better future that is coming. (b) As a reference like the management of SOEs to prepare a policy that is associated with the variable key that significantly influences on financial performance and improvement of cost leadership SOEs. (c) Being an indicator that can be used as an alternative to the preparation of contract performance of management of state-owned enterprises, to evaluate the factors main that led to the success or failure of management achieve performance that is targeted in the contract performance is set out in the AGM. (d) As a material evaluation of the development of the performance of financial and ratio of cost leadership an SOE, so that management and holders of shares can prepare a strategy and program of activities for the improvement of the performance of financial corporations the days that come. (e) Being a tool measurement to compare the performance of the financial and ratio of cost leadership among the SOEs with SOE others.

5. Conclusion

The result of this study shows that the leadership cost has been intervening the effect of financial strategy, investment policy, managing before interest and taxes, and earning management on Indonesia SOEs financial performance. In conclusion, this study has been successfully identified and examined the role of leadership cost as an intervening variable in the relationship of financial strategy, investment policy, managing before interest and taxes, and earning management on Indonesia SOEs financial performance. This study implies that using a leadership cost variable measured on the basis of matching principle in reconciling cost income in accounting. We suggest that the company management needs to prepare operational strategies and policies that can increase the SOEs financial performance. This study can also help the government and practitioners consider the variable of leadership cost in intervening the relationship of financial strategy, investment policy, managing before interest and taxes, and earning management on Indonesia SOEs financial performance.

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