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Has the Corporate Culture of State-Owned Enterprises Changed after Privatization?

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Abstract

The objective of research is to examine factors of corporate culture that affect the performance of state-owned Indonesian enterprises (BUMN) after privatization. Structural Equation Model is applied in this research. Results suggest that three components of corporate culture, which are community, safety, and teamwork, have most significantly influence BUMN performance indicated by the highest share price, sales level, and profit rate. In conclusion, improvement in BUMN performance after privatization is mainly caused by an improvement in tangible assets such as a rise in cash to reduce debt, and no improvement in intangible assets for instance in innovation and labor productivity.

Keywords: Corporate, Culture, Performance, Equation, Model.

¿Ha cambiado la cultura corporativa de las empresas estatales después de la privatización?

Resumen

El objetivo de la investigación es examinar los factores de la cultura corporativa que afectan el desempeño de las empresas indonesias de propiedad estatal (BUMN) después de la privatización. El modelo de ecuación estructural se aplica en esta investigación. Los resultados sugieren que tres componentes de la cultura corporativa, que son la comunidad, la seguridad y el trabajo en equipo, tienen una influencia más significativa en el rendimiento de BUMN indicado por el precio más alto de las acciones, el nivel de ventas y la tasa de ganancias. En conclusión, la mejora en el rendimiento de BUMN después de la privatización se debe principalmente a una mejora en los activos tangibles, como un aumento en el efectivo para reducir la deuda, y ninguna mejora en los activos intangibles, por ejemplo, en innovación y productividad laboral.

Palabras clave: Corporativo, Cultura, Desempeño, Ecuación, Modelo.

1. INTRODUCTION

Many nations are actively involved in entrepreneurship activities through state-owned enterprise establishments after the Second World War (BROWN, 2018). The purpose of its established was to accelerate improvement on social welfare because private corporate behavior deemed to put focus more on individual benefits. At this point, it is expected that state-owned enterprise which already productive and efficient can be effectively used as strategy of market price control, and thus, society can spend on public service and goods

on suitable price (BOUBAKRI, COSSET, DEBAB & VALÉRY, 2013; BIENEN & WATERBURY, 1989). In regard to that, nationalization issue comes to surface along with the rapid increase of state-owned enterprises. However, so far, efficiency improvement of state-owned enterprises did not occur; in fact, state cost budget tends to increase as an impact by decreasing state-owned enterprise profitability. BELESKY & LAWRENCE (2018), DOH (2004), BAVON (1998), came into conclusion that state-owned enterprises expected to be pioneers and competitors of private enterprises, do not occur.

In the globalization era, the corporation has to increase its resource management efficiency in order to survive competition (FARAZMAND, 2002). In this case, private enterprises are able to quickly respond to the changes in business climate by efficiently managing their corporation. As a result, this situation appears to affect the management system in state-owned enterprises. In relation to the role of nation in economy, classic public administration approach emphasizes more on the effectiveness of public service rather than efficiency. However, there is a newly developed concept about public management (New Public Management) due to limitation of state finances in supplying public goods back in 1980s. This new concept focuses on the importance of public service management, which is oriented toward market where efficiency is held as an important concern in supplying public goods. After that era, governments in many nations use privatization as a policy to increase performance in state-owned enterprises (CHEN, 2017).

In brief, privatization is an external business environment change that has an impact on the internal business environment of state-owned enterprises, which furthers have effect on corporation performance. BATE (1994) classifies internal changes of corporation into two aspects, which are (i) changes in hard systems tools by strategy, system, and structural modification, and (ii) changes in soft system tools, including alteration, incorporate value. At first, corporations usually respond by executing internal changes in hard system and followed by changes in its soft system. If corporations do not abide by those actions, improvement in performance as an effect of privatization will be only temporary or short term, not long term or sustainable. Thus, privatization will cause a sustainable improvement in performance, when internal changes are done simultaneously in a hard system as well as in soft system.

There are many scientific publications regarding privatization impact on performance to date, be it either in Indonesia and other nations. DIN, ZAINUDDIN & MUHARAM (2017), BRADA (2016), DOLLAR (1990), make known of their findings and revealed that privatization is able to increase performance in corporations, which can be seen by: (i) increase in sales, (ii) increase in profitability, (iii) increase in capital expenditure, (iv) decrease in debt, (v) increase in investments, both from foreign and domestic investors, and (vi) increase in the ability to compete in

regional and global level. Nevertheless, there are only a few findings of the relation between privatization and changes in corporate value, which affect state-owned enterprises. Hence, the main purpose of this paper is to examine which corporate value factor has the most significant impact on state-owned Indonesian enterprises (BUMN) after privatization (Faradina et al, 2018).

2. RESEARCH METHODOLOGY

This study uses quantitative confirmatory (confirmatory research) as its approach, with the purpose of identifying components of corporate values that significantly affect corporate performance after privatization. This study is conducted toward 20 BUMN that are listed in Indonesia Stock Exchange (IDX) from 2014 until 2018. The collected data, based on the audited yearly report, is categorized as data panel with total observations as many as 100. There are nine components of corporate value, is based on BOARDMAN & VINING (1989), which are: integrity, innovation, quality, safety, hard work, teamwork, communication, community, and respect. Meanwhile, corporate performance is indicated by four indicators based on Key Performance Index (KPI) that is developed by Pacific Crest Group, which are debt to equity ratio, the highest of stock price, profit, and sales.

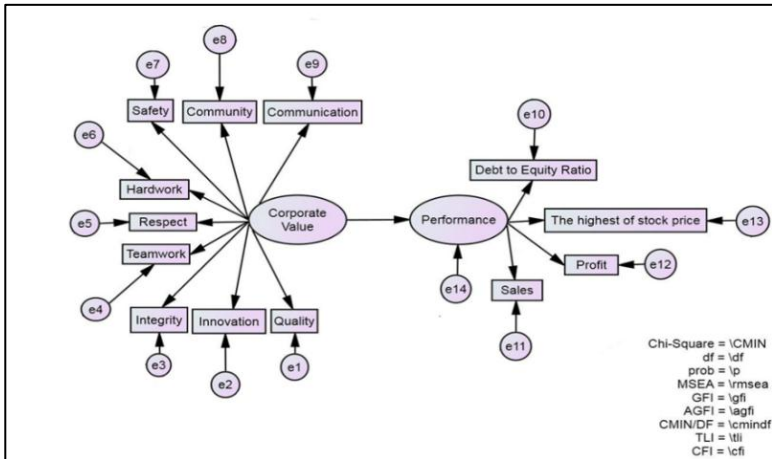


Figure 2: Specification model analysis

This study uses Structural Equation Model (SEM) as its estimation method. The use of SEM is considered accurate, recalling that there are three issues that have to be simultaneously estimated, which are: (i) estimation on the impact of corporate values toward performance, (ii) estimation on corporate value and performance variables as latent variables, and (iii) to understand the level of accuracy of the model, which was developed based on theories used as reference. Figure 2 illustrates the specification of the SEM model utilized (Bayeh & Baltos, 2019).

3. RESULTS AND DISCUSSION

There are three important explanations from SEM estimation results, which are (i) the role of main components of corporate value, (ii) the role of performance, and (iii) the impact of corporate value on performance. SEM estimation results can be interpreted if two of its assumptions are fulfilled: (i) multivariate normality, and (ii) goodness of fit, which includes: (a) reliability test, (b) validity test, and (c) accuracy test. Table 1 suggests that the test result indicates fulfilled the two assumptions.

Table 1: Result of structural equation model test

Types of testing	Cut of value **)	Estimation *)	Judgement
1. Multivariate normality test	Critical Ratio Skewness between -2.58 and 2.58	-2.314	Very good
2. Goodness of fit test:			
A. Reliability test for: i. corporate value ii. performance	construct reliability above 0.70	0.816 0.688	Very good Moderate
B. Validity test for: i. corporate value ii. performance	Average Variance Extracted less than standardized estimate in structural equations (0.389)	0.596 0.612	Very good Very good

C. Accuracy test:			
i. Probability of chi-square	Above 0.05	0.820	Very good
ii. RMSEA	Up to 0.08	0.054	Very good
iii. GFI	Above 0.90	0.917	Very good
iv. CMIN/DF	Up to 2.00	1.287	Very good
v. AGFI	Above 0.90	0.851	Moderate
vi. TLI	Above 0.90	0.941	Very good
vii. NFI	Above 0.90	0.856	Moderate
viii. PNFI	Above 0.6	0.560	Moderate
ix. PGFI	Nearest to 1.0	0.514	Moderate

*) Estimation Result, 2018

**) Hair et al, 2014.

Table 2: The results of the unstandardized loading estimate

Variables	Unstandardized Loading	Standard Error	Critical Ratio	Alpha Probability
Components of corporate values				
a. Community	1			
b. Safety	0.959	0.117	8.196	***
c. Respect	0.779	0.114	6.823	***
d. Hard-work	0.654	0.105	6.234	***
e. Integrity	0.491	0.149	3.305	***
f. Quality	0.446	0.121	3.676	***
g. Innovation	0.436	0.204	2.140	0.032
h. Teamwork	0.423	0.052	8.097	***
i. Communication	0.335	0.074	4.516	***

Components of corporate performances				
1.The Highest Stock Price	0.763	0.164	4.660	***
2. Sales	0.600			
3. Profit	0.506	0.107	4.709	***
4. Debt to Equity Ratio	-0.162	0.107	-1.523	0.128
The impact of corporate values to performances	0.568	0.167	3.402	***

***) significantly in less than 1%.

The loading value of SEM should be better understood as the contribution ranking of several observed variables in explaining latent variables. For instance, corporate value is constituted by nine components of organizational culture and hence high value of loading indicates the highest contribution in forming organizational culture. This also applies to the assessment of corporate performance. Table 2 shows that all components of organizational culture significantly formed corporate value. There is only one component of corporate performance that is not significant, which is debt to equity. The estimation result also reveals that corporate value affects the level of corporate performance significantly. However, unstandardized estimate is less precise when used to compare contribution value between observed variables, unless if it was done using standardized estimate.

Figure 3 displays the result of standardized loading estimate that can be described as follow:

1. There are six components used to measure corporate values in BUMN after privatization: (i) community, (ii) safety, (iii) teamwork, (iv) respect, (v) hard work, and (vi) communication, respectively. Meanwhile, three other components cannot be used to measure BUMN corporate values, which include (i) quality, (ii) integrity, and (iii) innovation.
2. There are three main components used the measurement of BUMN performance, which are: (i) the highest stock price, (ii) sales, and (iii) profit. Then, the debt to equity ratio failed to be used as a measurement of BUMN performance.
3. Increasing the power of corporate values contribute to improvement in BUMN performance.

4. DISCUSSION

Numerous studies have revealed that many state-owned enterprises have suffered from performance declination. The performance of state-owned enterprises is deteriorating due to its strategic decision that focuses more on short-term benefits. The previous statement is then reinforced with statement from DRUCKER

(1996), governance is a poor manager...it has no choice but to be bureaucratic. In brief, there are four main corporate values of state-owned enterprises caused worsening performance:

1. Uncontrolled justification of lavish behavior in state-owned enterprises management as an excuse to preserve welfare degree of employees and social responsibility, through the bad implementation of Reward and Punishment System (RPS), and Corporate Social Responsibility (CSR).
2. Governance is a poor manager because position in the state-owned enterprises is based on bureaucracy rather than competency.
3. Poor innovations on public service, and as a result, management of state-owned enterprises appear to be rigid, uncreative, and bureaucratic.
4. Less responsive to external changes or market changes.

Since the 1980s, privatization is a practice done as a response toward failure of state-owned enterprises in improving its performance. Fundamentally, the essence of privatization itself is a policy to minimize role of government in business. Based on New Public Management theory, efficiency improvement in public goods supply can be done by incorporating competition or rivalry aspects (BRIGNALL & MODELL, 2000). Incorporating competition or

rivalry aspects in state-owned enterprises management means demand in internal change within its management, both in hard system tools such as change in strategy, system, and organization structure, and in soft system tools such as organizational behavior and human resources and development, as well as corporate culture (BATE, 1994). Thus, privatization can be claimed as an effort to improve performance through governance refinement of state-owned enterprises, intangible and intangible assets.

According to the SEM estimation result, illustrated in Figure 3, the loading value of corporate value impact on performance is 0.39. This indicates that the role of BUMN corporate value after privatization is very little in improving corporate performance. It seems that this is due to low loading value in three components of corporate value, which are (i) quality, with a loading value of 0.38, (ii) integrity, with a loading value of 0.36, and (iii) innovation, with a loading value of 0.22. These results connote that corporate value in BUMN is not dominated by those three components, which were, in fact, the issues in organizational culture of BUMN before privatization. Therefore, the improvement of BUMN performance after privatization seems to be mainly caused by tangible asset improvements, such as an increase in cash to reduce debt, rather than in intangible asset improvements, such as innovation and labor productivity. This finding reinforced the result from ABRAVANEL (2006) stated that privatization could be said as capital injection coming from stock sales. Meanwhile, impact of privatization on corporate values tends to take a long time, it highly depends on corporate management practices

5. CONCLUSION

Components of corporate value can be classified into three groups. First, three highly significant components of BUMN corporate values: (i) community, (ii) safety, and (iii) teamwork. Second, three moderate components of BUMN corporate values: (i) respect, (ii) hard work, and (ii) communication. Third, the three minor components of BUMN corporate values: (i) quality, (ii) integrity, and (iii) innovation. The corporate values of BUMN after privatization has a minor role in improving corporate performance. Improvement in BUMN performance after privatization is mainly caused by an improvement in tangible assets such as a rise in cash to reduce debt, and no improvement in intangible assets for instance in innovation and labor productivity.

The conclusions above can be said that the organizational culture of BUMN after and before privatization is not quite different. Previous studies mostly revealed that the objective of privatization is to improve on BUMN performance through increasing efficiency. Thus, based on organization culture perspective, the main components in dealing with efficiency improvement should be innovative, integrity, and quality orientation. The analysis model in this study can be able to explain the role of organizational culture in BUMN performance. However, the data of corporate value components utilized is not cultural audit, particularly regarding internalization of organizational culture in daily operation. This limitation should be improved for

future studies relating to the impact of organizational culture on corporate performance.

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