Determinant Government Ownership Structure and Supply Chain Management on Company Performance: Indonesian Public Listed Companies

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Abstract- The government’s supply chain management (SCM) system is not adequately implemented in state-owned enterprises (SOEs). There are weaknesses in the SOEs SCM enablers, strategies, policy implementation and poor enforcement of government SCM rules and regulations. This purpose of this study to determinant between government ownership (GOV), insider ownership (INSIDER) and bank dummy (Dbank) on company financial performance. In this study, financial performance is measured by return on equity (ROE). The population and sample consists of 20 government companies in Indonesian Public Listed. The period of this study is from 2013 to 2017. The results showed the GOV and INSIDER variables have an effect on ROE while the Dbank variable does not affect the company's financial performance. GOV negative influence on ROE. This shows government political motives. In addition, government-owned companies may have lower profits because they finance a project that does not bring financial gain but brings social benefits. INSIDER positive influence on ROE. This shows managerial ownership will encourage management to improve company performance, because they also have a company.

Keywords- government, supply chain management, performance and ownership structure.

1. Introduction

The government’s SCM was designed to add value at each phase of the process and includes the main elements of demand management, acquisition management, logistics management, disposal management, risk management and regular assessment of the supply chain performance. [17] state that the separation of management functions and ownership functions is very influential with agency conflict. Agency conflicts occur because of differences in interests between shareholders and management (agents) regarding company profits. Agency conflicts can also occur between shareholders and managers, both of whom disagree about company profits. Conflicts can also occur between managers and debt holders, where managers prefer to use retained earnings for the company's expansion capital while debt holders prefer to use retained earnings to pay debts. Because the debt holders are worried that they cannot pay the company's debt so that there is a buildup of debt and creates an agency conflict between the two. The existence of agency conflicts between the two that will occur will cause costs to be used to control the conflict. The cost of the fee is called the agency cost.

[16] state that the higher the level of insider ownership or managerial ownership, the better the financial performance, because the agent has become the owner and manager of the company and the goal is the same as the shareholders so that the conflict between the two is reduced. Insider ownership is the proportion of company stock ownership by people in companies such as directors and commissioners who are active in decision making measured by the percentage of the total shares owned by insiders in total outstanding shares.

The higher institutional ownership will reduce the opportunistic behavior of managers who can reduce agency costs. Opportunistic behavior is behavior that is often done by managers to take advantage of all opportunities to achieve personal goals. Supervision of managers can reduce agency conflicts that can occur. When the agency conflict level is lower, the agency cost of the company will be lower and the company's performance will improve. A good company performance can be seen from the development of profits obtained by the company.

The achievement of a company is closely related to the role and function of the company management. Therefore, the competitiveness of a company depends very much on the ability of a manager to manage their respective companies. In addition to the large role of the board in managing the bank so that it can produce good performance, the role of the bank owner is also very important because the bank owner will determine the selection of the board. The owner of a bank, like other corporate owners or porters, always wants to get the maximum profit by minimizing commercial risks. The company owner wants the manager to optimize the resources available to the company so that the board is able to generate maximum profits and manage the
company as closely as possible. These results are similar with [23],[5],[7],[22],[21],[15],[12],[27] and [11] found that government ownership has a significant effect on company performance. While the results of [13], [10] and [9] who find ownership structures do not affect corporate profits.

Therefore, the performance contract will be in the form of the owner and management of the company so that the interests of the management and the interests of the owner are equal. Achievement contracts will be established so that the compensation received by the board is related to the meeting with the companies achievements. The contractual relationship between owner and manager is in line with agency theory [17]. Stating the interests of the relationship between government owners and the ownership of shares by management on the company's performance, this study needs to be done to determinant between government ownership (GOV), insider ownership (INSIDER) and bank dummy (Dbank) on company financial performance. In this study, financial performance is measured by return on equity (ROE).

2. Literature Review

In the area of study of the influence of ownership on supply chain management and company performance, the most frequently used theory is agency theory. Agency theory describes the relationship between the owner as a principal and manager as an agent. The relationship is very important because it affects the performance of a company. Thus the competitiveness of a bank depends largely on the ability of managers to manage their respective banks. In addition to the magnitude of the role of managers in managing the bank in order to perform well, the role of the bankers is also vital for monitoring and ensuring that managers are working hard to advance the bank under its management.

Therefore, in the relationship between the company owner and the manager usually there will be a performance contract where the company owners are aligning the interests of the manager with the interests of the companies owner. Performance contracts are formed so that rewards received by managers are closely linked to company performance. [17] reveal that the difference in importance between owners and managers that creates an agency conflict occurs because the manager does not hold company shares or has insufficient ownership.

The concept of agency as disclosed by [17] can be seen in the results of the study of [6],[1] and [25] which indicate that bank owners are handing over to the manager as an agent to manage the bank. This is because the owner has difficulty managing the company directly because of the following factors. First, the size of a growing bank will be difficult to manage. Second, the need for specialized expertise to manage large banks and generally the owners have no such expertise. Third, bank ownership is determined by the number of shareholders. If the number of shareholders is too high and each person holds a small number of shares then this situation does not allow all owners to manage the activities of banks effectively.

The manager can be seen as an agent by the bank owner who appoints them and is authorized and responsible for making the best decisions in the interest of shareholders. One way to measure success and efficiency of managers is to look at the profitability of the company. Performance can be measured through bank's ability to secure a stable profit while at the same time maintaining shareholder wealth increase in the company.

[6] point out that managers may ignore the interests of shareholders, instead paying attention to their interests such as job continuity, luxury lifestyle, professional membership, personal vehicle facilities, all of which are borne by the company. [24] stipulate to address agency issues, shareholders have incentives to monitor managers so as to minimize the problem of principal-agents. However, the level of incentives depends on shareholder ownership. If the owner holds a small number of shares, the owner will not have the incentive to monitor the manager's behavior. This is because the profit earned by the owner is less than the cost of supervision. Therefore, it is expected that private banks, most of which are owned by a family, will have a better performance compared to government-owned companies.

For a company that is largely owned by the family, conflicts between company owners and managers are rare. [3] notes that when a majority of the shares are owned by the family, it reduces the agency's problems compared to companies owned by many shareholders. In Indonesia, 90 percent of the company's shares are owned and operated by a family. This situation is not much different from other countries such as Spain [18]. [3] states that the advantages of a family owned and operated company are family members will manage the company and this will reduce agency problems. However, because a family is also a manager of the company, the agency problem will arise between the family, as a majority shareholder and a minority shareholder. In addition, according to [1] bank capital also affects the performance of a bank. Due to the large capital of private banks in Indonesia issued by individuals or families, they have higher incentives to monitor loans issued due to bank performance and their wealth will be affected by repayments.

Government-owned companies may not be efficiently managed because the board and management do not hold any shares in the company. This causes the company's performance to be affected [20] and [19]. The agency problem in the context of government ownership is more complicated as the government holds shares in the company on behalf of the public or the people. Since governments are led by politicians who have no ownership in these companies, they may not monitor the actions of the board of directors or management.

According to explaining that the number of management shares or insider ownership will align management's interests with those of shareholders, with an increase in the percentage of managerial
shareholding, Manager is motivated to improve the company's performance well and be responsible for shareholder prosperity. The similarity of interests between management and shareholders can reduce the potential for conflict. Agency theory states that companies with managers as single shareholders (100%) will have an agency cost level equal to zero. This is a sharing criterion above 50% that is owned by a particular manager or family which states that agency costs are significantly higher if outsiders manage the company than those in the company (insider).

[17] is one of the ways to reduce agency costs in a company, namely the existence of insider ownership. The higher the level of insider ownership, the greater the information that is owned by management who is also the owner of the company, resulting in less agency costs, because the insider ownership or management has become the owner and manager because it has a larger share, and between shareholders and management will reduce conflict because managers know that profit or loss has a relatively similar impact between shareholders and management (agents). With this kind of thing where management (agent) has simultaneously become an agent and owner so that it can reduce the cost of supervision of the agent. This is because the information held by insiders about the company's plan is more complete than other shareholders. [17] stated that the greater the insider ownership, the management will optimize the use of available resources to maximize the value of the company so as to reduce agency conflict.

[8] shows that managerial ownership has a significant effect on company performance. The division of managerial ownership is important because each group of shareholders has different financial incentives. The results of research from [26] show that manager ownership has a significant positive effect on company performance. [2] also stated that managerial ownership has a significant positive effect on company performance as measured by ROA and ROE. The results of research of [14] stated that managerial ownership has a significant positive effect on the company's financial performance as measured by sales growth, ROA and ROE.

3. Research Method

The population and sample consists of 20 government companies in Indonesia Public Listed. The period of this study is from 2013-2017. The data are taken from banks' annual reports. In this study using pooled ordinary least square (OLS). The following model is estimated:

\[ \text{ROE}_{it} = \beta_0 + \beta_1 \text{GOV}_{it} + \beta_2 \text{INSIDER}_{it} + \epsilon_{it} \]

Where

- \( \text{ROE}_{it} \): Return on equity of banks in period t
- \( \text{GOV}_{it} \): the number of government shareholdings i in period t
- \( \text{INSIDER}_{it} \): the number of shareholdings of the manager in period t
- \( \text{Dbank}_{it} \): A dummy variable that takes on a company value of one if i in period t, zero otherwise
- \( \epsilon_{it} \): error term of company i in period t

4. Result

| Table 1. Comparisons of mean of selected variables bank and non bank company |
|---------------------------------|----------------|-----------------|----------------|
| Ratios                          | Means all bank (%) | Means (%) | p-Value(2 tailed) |
| ROE                             | 11.03            | 11.64         | Ns              |
| Government Ownership            | 67.38            | 67.20         | Ns              |
| Insider Ownership               | 0.45             | 0.56          | Ns              |

ns is not significant.

Table 1 above shows that the listed average ROE of government-owned companies was reduced by 11.03%, with ROE of non-bank-companies higher than bank companies, while there was no difference in ROE between bank and non-bank companies. Institutional ownership averaged 67.38% where bank companies were higher than non-banks. Because Government Ownership (GOV) bank companies are higher than non-banks, the managers reduce the amount of ownership because the purpose of government companies is greater on social goals so that the impact on dividends will be smaller. The results of different tests show that there is no difference between banks and non-bank companies. Meanwhile, Insider Ownership (INSIDER) of government-owned companies is an average of 0.45% where non-banks are higher than bank companies. This shows that managers are more interested in owning shares in government-owned companies in non-banks because the profits of non-bank companies are higher to obtain higher...
The results of different tests show that there are no differences between bank and non-bank companies.

Table 2. The Result regression analysis

<table>
<thead>
<tr>
<th>Variable</th>
<th>Ordinal Least Square</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coef.</td>
<td>p</td>
<td></td>
</tr>
<tr>
<td>Constan</td>
<td>0.361</td>
<td>0.000***</td>
</tr>
<tr>
<td>GOV</td>
<td>-0.456</td>
<td>0.000***</td>
</tr>
<tr>
<td>INSIDER</td>
<td>0.228</td>
<td>0.020**</td>
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<tr>
<td>Dbank</td>
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<td>0.422</td>
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<tr>
<td>R-squared</td>
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<tr>
<td>AdjustedR-squared</td>
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<td></td>
</tr>
<tr>
<td>Numberobservation</td>
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<td></td>
</tr>
</tbody>
</table>

*, ** and *** denote significant at the 10%, 5% and 1% level, respectively, p-value in parentheses. Table 2 above shows that the GOV and INSIDER variables influence ROE while the Dbank variable has no effect. GOV negative influence on ROE. This shows that the ownership of a government-owned company reduces the company's performance. This is because the existence of large government institutional ownership in a company makes government intervention on management performance to be large, thus making management feel bound and the manager's space is limited. The limitation of movement will encourage management to carry out dysfunctional activities, so that the presence of institutional parties that are too large in the company can have a negative impact on the company's performance. In addition, there is the possibility of supervision by the institution is less effective, so it needs supervision by external parties such as auditors. The objective of a politician who leads a government may differ from an individual who owns a business. Governments tend to political goals that may negatively affect the financial performance of the company.

The stating that the company becomes an efficient due to agency problem arising from government political motives. In addition, government-owned companies may have lower profits because they finance a project that does not bring financial gain but brings social benefits. These results are similar with [23],[5],[7], [22],[21],[15],[12],[27] and [11].

INSIDER positive influence on ROE. This shows Companies that have a high level of managerial ownership will generate high profitability. Managerial ownership will encourage management to improve company performance, because they also have a company. The greater the proportion of management ownership, the management tends to try harder for the benefit of shareholders in improving company performance. Improving the performance of this company will indicate a high asset turnover ratio. Managers who have company shares tend to carry out strategies to improve company performance in the long run. The greater the managerial ownership within the company, the more productive the manager's actions are in maximizing the company's performance and generating high asset turnover. The results of this study are similar with [8], [26], [2] and [14].

4. Conclusion

In today's volatile and complex business environment, it is more and more difficult for supply chain managers to make decisions effectively, thereby both researchers and practitioners have an increased interest to investigate how to design an appropriate governance framework to guide the supply chain to collaborate successfully under such environment. This study aims to determinant government ownership, insider ownership and bank dummy on company performance. In this study, financial performance is measured by return on equity (ROE). The results showed that the GOV and INSIDER variables have an effect on ROE while the Dbank variable does not affect the company's financial performance. GOV negative influence on ROE. This shows that the ownership of a government-owned company reduces the company's performance. This is because the existence of a large government institutional ownership in a company makes government intervention on management performance to be large, thus making management feel bound and the space for managers to be limited thus demonstrating that government political motives. In addition, government-owned companies may have lower profits because they finance a project that does not bring financial gain but brings social benefits. INSIDER positive influence on ROE. This shows Companies that have a high level of managerial ownership will generate high profitability. Managerial ownership will encourage management to improve company performance, because they also have a company.

References


