THE IMPACTS OF GOVERNMENT AND MANAGEMENT CONFLICTING OBJECTIVES ON THE STATE-OWNED ENTERPRISES (SOEs) PERFORMANCES: THE CASE OF INDONESIA PUBLICLY LISTED SOEs

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Abstract: Paper is aimed to examine the impacts of conflicting objectives on the State-Owned Enterprises (SOEs) performance. The study motivated by the potential differences between government as the shareholders and management as the operator of SOEs. Government as shareholders may include politician, bureaucrats, and other government’s agents or ministry who have different interests and objectives toward SOEs. The government objectives are mainly dominated by socio-economic expectations. Meanwhile, management may bring his/her own interest and objectives which dominated by market and economic expectation. The conflict may appear and affect the performance. Using the case of the Indonesia public listed SOEs, this study examines in the extent to which the conflicting objectives between government and management stated objectives affect the performance; and which objectives dominate the business. The Statistic tools are used to examine the impacts of government and management conflicting objectives on SOEs performance during the period of 2004 to 2018. The period is selected particularly to see whether the changes of political regime contribute to the conflicting objectives. The study indicates that government objectives dominate the business activities which significantly affect the performance of SOEs.

Keywords: State Owned Enterprises, Conflicting Objectives, Performance, publicly listed companies


The aim of this study is to examine the impacts of government and management’s conflicting objectives on the company’s performance. The agency theory emphasizes the separation function of agent and principles in managing the company as the aim of risk sharing issues. In practice, the separation of functions is not limited to the risk sharing. It leads to the emergency of differences of interest and objectives. The influence of own interest and purpose of the parties involved leads to the development of multiple objectives. The situation becomes complex when the owners of the company or principals consist of more
than one institution like public enterprises or State-Owned Enterprises (SOEs). Besides management who runs the company, SOEs often have more than one “shareholder”. The government as the founder of SOEs, determines the purpose and objective of the SOEs which become the corporate objectives. In some extent, these objectives conclude the structure and operational of the SOE. In practice, the government as the SOE’s shareholders may include politician, bureaucrats, and other government’s agents or ministries. The objectives of SOEs become bias as each party may present their interests and purposes on the SOE’s objectives. The government objectives are likely to be dominated by social welfare as part of its duty in the provision of public utilities. The objectives like national economic improvement, national development, sufficient market of goods and services supplies, and industrialization are the most common government stated objectives for SOEs. Politician is likely to have socio-political interests to support their legitimacy which often implemented through their expectations within the SOEs. The politician objectives are often found in term of employment, community prosperity and community development. Meanwhile, management concerns are mainly on the maximizing value and profitable. Later the development of environment concern and professionalism encourage the management to present their concern on the environment and community issues. These are seen that each agent may bring its own objectives which probably differ from the existing SOEs’ objectives which stated on the government regulation on the establishment of the SOE.

Conflicting objectives appear as providing the affordable public goods and services or meeting the social-political interests potentially hinder the company to be profitable and efficient. Earlier study shows that government provision of public goods and services are less likely to be efficient and/or profitable (Blackman, 1995; Gunness, 1994; Hanschen and Erspamer, 2004). The situation becomes complex when the SOEs’ managers have another expectation. Earlier study shows there is possibility that SOEs’ managers have their own interest (Vernon, 1984) in addition to the requirement to maximize the shareholders return. The conflicting objectives appear when the SOEs are required to be profitable, efficient, and providing the affordable public goods and services at the same time. The managers may also require accommodating the other stakeholders’ expectations such as public, suppliers, and customers. At the same time, the reward and punishment contribute to the managers own interest. These interests and purposes are often found within the SOEs objectives. These interests and purposes become the motivation of management actions.

The strong relations between SOEs and government are considered to have impacts on the objectives. As the government entities, SOEs usually carry social welfare duty and socio-political requirement. For example, SOEs may produce the product based on the politician interest rather than market or community needs (Shleifer and Vishny, 1994). Socio-political goals become part of the SOEs objectives in addition to profit maximizing. Earlier study shows SOEs managers are classified into two groups as one with business orientation and political orientation (Zif, 1981). This orientation indicates the behavior taken by the managers. When the management has strong link with the government and politician, social welfare and political stability may become the focus to achieve. In this situation, the conflicting objectives are less likely to be happened. In practice, profit maximizing is often used as the management measurement tools which affect the management decision and focus. By any means, managers may have his/her own agenda which differ from the existing company’s objectives.

The introduction of halfway privatization in developing country causes the structure of SOEs ownership changed where government and public become the owners. The change of ownership structure potentially changes the objectives of the company. The multitask theory emphasizes that the SOEs reforms can be the alternative to reduce SOEs burden by focusing more on the production and profit objectives (Bai, Li, Tao, and Wang, 2000). Since objectives plays a prominent role in term of evaluating whether the company has successful introduced strategies and achieved its expectation (Song,
Wang, and Cavusgil, 2015), the reform through privatization is expected to make significant impacts on the SOEs’ performance. This situation raises a question whether the privatization changes the objectives of privatized SOEs when the government is no longer the only owner. The multitask theory of SOEs demonstrates that SOEs remains playing their multitask roles even though the government has reformed the companies by focusing on the economic objectives such as efficiency and profitable (Bai et al., 2000). The same situation is also found within the Indonesia publicly listed SOEs. Earlier study reveals that SOEs reform through privatization and the introduction of new SOEs structure do not make any different on the Indonesian government objectives on the publicly listed SOEs (Fitriningrum, 2015). While profit and efficiency become the government and management concern through the introduction of new SOEs rules and privatization, the government objectives on the Indonesia publicly listed SOEs remain dominated by the social welfare objectives such as the requirement to improve national economic and development, industrialization, provision of community need and prosperity.

The multitask theory highlights the continuity of the multitask in accompany with multiple objectives may not satisfy the objectives (Bai et al., 2000). This is because these multiple objectives cause some problems that SOEs managers need to resolve. The differences or conflicting objectives leads to several questions regarding the effectiveness of management to meet these expectations. This is in particularly since objectives are often used as to determine the aim of action or to reduce the differences (Boyd and Levy, 1966). When the objectives are different or in conflict, how the objectives can be used to determine the action and reduce the differences. At the same time, objectives are often measured through the performance. Performance is an indication whether the expectation is achieved, or whether the objectives have been met. When the objectives are conflicting, this situation leaves a gap of knowledge, in the extent to which the expectations can be met and which objectives have significant impacts on the company’s performance. Therefore, using the case of the Indonesia publicly listed SOEs this study is purposed to examine the extent to which the government and management’s objectives are in conflict, and what the impacts of these conflicting objectives on the SOEs’ performance.

The evolution of Indonesia SOEs structure determines the objectives. Early study reveals three periods of Indonesia SOEs development; Indonesianization, nationalization, and corporatization which significantly shaped the structure and objectives of Indonesia SOEs (Fitriningrum, 2015). Indonesianization as the first period of evolution begins following the independence of Indonesia in 1945. Indonesianization aims to empower the roles of indigenous Indonesia, pribumi, in socio-economic activities. Instability of political and poor economic situation followed by the Dutch blockade on the inter-island trading encouraged the government to establish several state companies. Bank Negara Indonesia (BNI) was the first government enterprise established in 1946 which aims to facilitate the new Indonesia government activities purely under the Indonesia government. For this reason, the bank carried multiple functions such as to act as the state and central bank as well as to circulate the Oeang Republik Indonesia (ORI) as the official Indonesia currency (BNI, 2008). Following the BNI, other state companies were established. The Indonesia government established several new state companies such as Bank and Trading Corporation (BTC), Sumatera Banking and Trading known as CTC, and Bank Industri which mainly aimed to resolve the trade blockade, create job, and prevent the potential empowerment. It is seen that the state companies did not only carry multiple roles, they have more than one objective. Lack of unskilled local entrepreneurs and middle-class Indonesia who took advantages of Indonesianization strengthen the patronage economic structure. However, instability political and socio-economic situation ended the Indonesianization in 1965 following the political catastrophes.

The political catastrophe in 1965 led to financial crisis followed the massive strike and communist riot. To resolve the crisis, the government took over the control of 822 companies which some of
them were nationalized companies. Some actions were taken by the government to resolve the crisis. Besides the re-privatization to their original owners, the government also established nationalization body and some new state enterprises to take-over some of the Dutch nationalized companies (Abeng, 2001, 2002; Diah, 2003; Kanumoyoso, 2001; Ruru, 2006). Some companies were merged, acquired or transferred to new status, and/or regional government (Kanumoyoso, 2001; Nugroho R and Wrihatnolo, 2008). Several new state companies were also established to provide public utilities and distribute staples to Indonesia (Kanumoyoso, 2001). To standardize these companies, the government introduced the new structure of Perusahaan Negara as the state production and economic power.

The introduction of Perusahaan Negara became the beginning of corporatization. The corporatization is still limited to management structure. Perusahaan Negara was sharpened into three structures based on their roles and functions, which also determined their objectives. Three new structure of Perusahaan Negara are Persero, Perum, and Perjan. Based on these structures, Perusahaan Negara’s objectives were more specific as to the provision of services, handling of public interest, and obtaining revenue (Indonesia State Secretariat Ministry, 1960; MSOE, 2008). Persero is determined as the government economic backbone, which dominated by profit maximizing and reduce state financial burden. Perum and Perjan were the government’s social welfare vehicles, which aims to carry the social welfare duties. Regarding their structure, Persero is commercial entity with separated capital from state budget, while Perum and Perjan are not commercial entity without separated capital from the state budget.

Despite the introduction of new structure of Perusahaan Negara, the government inconsistent to implement the economic policy causes some financial issues in the early 1980s. The change of political regime following the political catastrophe encouraged the Indonesia government to introduce market orientation policy where the roles of government through Perusahaan Negara were limited to social welfare function. In practice, the see-sawing economic policies from market orientation to centralization have placed the Perusahaan Negara as the economic vehicles for the government. For example, some Perusahaan Negara particularly when the oil price booms in the early 1980s become the major financial source for government’s investment (Robison and Rosser, 1998). Numbers of new private banks established which rely on the state bank expenses (Fane, 1999; Mcleod, 2002; Pangestu and Habir, 1989). The end of oil price booming led to another financial crisis in the earlier 1980s.

The failure of government to resolve the economic situation and poor performance of Perusahaan Negara motivated the government to re-structure it. The government re-structured Perusahaan Negara by introducing new structure of Badan Usaha Milik Negara (State Owned Enterprises/ SOE). The new structure was followed by the requirement for SOEs to implement corporate principles particularly for Persero. In practices, the domination of bureaucrats and military remained stronger within the SOEs. The mutual relation between political power and economic entrepreneurs become major issue in economic Indonesia (Pauker, 1981). Some strikes and riots occurred as the consequence of public frustration and pressure toward the government to resolve the economic situation. Another crisis hit which led to massive chaos enforced the government to resolve the economic situation.

Privatization was selected as the economic safer. Massive privatization was done in the earlier 2000s which brings significant changes on the way government governing the Indonesia SOEs. The government issued new regulations for SOEs such as SOEs law and privatization rule to resolve the political constraint. The new rules emphasized the crucial roles of profit maximizing and efficiency for all SOEs (Indonesia State Secretariat Ministry, 2011) which cause the elimination of Perjan structure by transferring them to related department. In contrast, the new regulations still leave some spaces for the government to require SOEs to carry additional works which may differ from the existing objectives. At the same time, the new regulations caused
the Indonesian SOEs are classified into three new groups; publicly listed SOEs, SOEs which are unrestricted for privatization, and SOEs which are restricted for privatization.

Focusing exclusively on the publicly listed SOEs, the government as the shareholders determines the objectives based on the purpose of the SOE’s establishment. The situation and urgency surrounding highly affect the objectives and purpose of the establishment of the SOE. In practice, the introduction of new government policy as well as privatization does not change the government objectives within the SOEs. It is seen that the government’s objectives themselves are conflicting. Meanwhile, as mentioned previously, managers are possible to have difference interest (Vernon, 1984). The differences are mostly driven by the reward and punishment received by the managers in term of profitable, the relations between managers with the politician as well as the dynamic of market around the SOEs. This significantly affects the managers objectives are often presented through their vision and mission.

METHOD

The study is an empirical study which mainly focused on the relations between the objectives and SOEs business activities. The relations between objectives and business activities are measured through their financial performances. Using the empirical data, the quantitative analysis is employed as to measure the impacts and relations between the objectives and performance of the SOEs. The objectives are categorized as the government stated objectives which are stated on the government law for the SOE, and management stated objectives which are stated on the SOE’s vision and mission. The SOEs are selected only the ones which already publicly listed where the government is no longer the only shareholders for the company. There are 20 Indonesia SOEs have been privatized since 1991; PT Telekomunikasi Indonesia Tbk (PT Telkom); PT Semen Indonesia Tbk; PT Garuda Indonesia Tbk; PT Krakatau Steel Tbk; PT Tambang Batubara Bukit Asam Tbk (PTBA); PT Perusahaan Gas Negara Tbk (PT PGN); PT Semen Baturaja Tbk; PT Bank Rakyat Indonesia Tbk (BRI); PT Bank Negara Indonesia Tbk (BNI); PT Bank Mandiri Tbk; PT Bank Tabungan Negara Tbk (BTN); PT Kimia Farma Tbk; PT Indofarma Tbk; PT Jasa Marga Tbk; PT Adhi Karya Tbk; PT Waskita Karya Tbk; PT Wijaya Karya Tbk; PT Timah Tbk; PT Aneka Tambang Tbk; PT Pembangunan Perumahan Tbk (PTPP). The data are collected from the SOEs’ annual and financial report from 2004 to 2018 for management stated objectives and financial performance. Meanwhile, the government stated objectives are collected from the government law regarding the SOEs. The objectives, later, are classified into socio-political and economic objectives based on the interpretation and meaning for the sentences. When the SOE has an objective, it will be counted as 1, and 0 when the objective is not found or stated. However, only the objectives that are conflicting, between government and management stated objectives, are examined for this study.

Besides the objectives, the financial data are used to measure the impacts of the conflicting objectives. Several financial performances such as ROE, ROA, leverage, asset turnover, operating profit margin, EBIT margin, and operating return margin are used to measure the economic impacts, while taxes paid, dividend paid, effective dividend rate, number of employees, labor cost, effective taxes rate, and employment intensity are used as the SOEs financial performances that represent the SOEs’ social welfare performance. Using STATA as the statistical tools, two sample t-test and regression are used to examine the relations and impacts of the objectives on the financial performance.

RESULTS

The Indonesia publicly listed SOEs objectives reveal two distinctions of institution dominations: government and management. Government as the shareholder set the objectives from the beginning of the SOE established which are influenced by the socio-economic situation during the establishment. As the consequence, the government stated objectives for the SOEs are dominated by the socio-political objectives. The Indonesia government stated objectives are less likely to be changed, even though
The Indonesia government introduced several new regulations related to SOEs or the SOE is privatized. The earlier study reveals that limited of profit institution that are willing to take part in social stabilities due to limited benefits, make the roles of SOEs crucial (Bai et al., 2000). The same situation is found with Indonesia. The government stated objectives of the Indonesia publicly listed SOEs are still dominated by socio-political objectives such as the requirement to improve national development, national economic development, industrialization, community prosperity, and comply with the government policy. Some economic objectives are also found such as maximizing profit, efficiency, product, and company reputation. These are found with the company which experience with significant change such as PT Bank Mandiri Tbk which established in late 1990s through merger four state banks. In contrast, management stated objectives are dominated by economic objectives such as profit, efficiency, customer satisfaction, performance, maximizing stakeholders’ expectations. The influences of market and economic environment are clearly seen through the requirement to sustain and compete with other business players makes the objectives are dominated by the economic objectives such as sustainability and growth. Some socio-political objectives are found within the management stated objectives such as improve the national economic and national development, community development and industrialization which indicated that management may not fully focus on the economic expectations. These management objectives indicates that management orientation may influence by other factors such as stakeholders or the manager own interest (Bai et al., 2000; Lioukas, Bourantas, and Papadakis, 1993; Zif, 1981). The potential conflicting objectives is stronger when these interests influenced the management’s objectives. For this study, the objectives are consisted of 18 government stated objectives and 31 management stated objectives. The management objectives are likely to be changed following the changes of management structure or market situation. The potentially conflicting objectives are occurred when the objectives from both parties are different. The study shows the SOEs’ management recognizes 15 government stated objectives. There are 16 objectives are categorized as economic objectives, while the rest is socio-political objectives. Since not all the objectives are potentially to conflict with the socio-political objectives, for this study, only profitability and efficiency are selected to be tested in term of whether they conflict with socio-political objectives.

The management profit and efficiency become the main indicators since the profit and efficiency are crucial for management. The preliminary test conducted also reveals that government profit and efficiency objectives are omitted during the test. Focusing on management profit and efficiency objectives also occurred as the objectives may affect the management’s performance indicators for SOEs that has the reward and punishment consequences. At the same time, the self-interest becomes the dominant factors that determine and guidance the manager’s action (Dornstein, 1976). As the result, profit and efficiency are most likely to be found within the management’s stated objectives. Profitability and efficiency are in line with the socio-political objectives such as the requirement to contribute to national economic, improve community prosperity, or provide the community needs which are potentially in conflict to each other. As mentioned previously, this is because improving the national economic, community prosperity, or provision of the community needs may erode the SOEs profit and hinder the SOEs to be efficient.

Potential conflicting objectives between governments stated objectives and management stated objectives as found when management economic stated objectives are intertwined with both government and management socio-political stated objectives. As presented on Table 1, the management profit stated objective is conflicting with most of the socio-political stated objectives. The existence of the management profit stated objectives causes the negative impacts on the socio-political stated objectives except for the national development improvement stated objectives. Table 1 reveals the management profit stated objective makes negative impact on the national economy improvement for -6,230, and national security for -2,249 points.
profit objective has significant negative impacts on the community development, community prosperity, and community needs for -11,485; -8,618; and -2,266 points, respectively.

A similar situation is found with the management efficiency stated objective. The management efficiency objective presents negative significant changes on the government socio-political objectives, except for the government community development and sufficient market supply. The management efficiency stated objective presents its negative significant impacts on the socio-political objectives. The objective shows its -34,969-points impacts on the national development improvement stated objective. It also causes negative impacts on the national security and national economy improvement stated objectives for -13,475 and -9,303 points, respectively. However, the management efficiency stated objective presents no indication that the objective conflicts with the community development and sufficient market supply stated objectives. These results indicate that for some socio-political objectives, profit and efficiency are in conflict, as shown on Table 1.

<table>
<thead>
<tr>
<th>Objectives</th>
<th>Profit</th>
<th>Efficiency</th>
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</thead>
<tbody>
<tr>
<td>National Economic</td>
<td>6.230</td>
<td>-9,303</td>
</tr>
<tr>
<td>National Development</td>
<td>-0.186</td>
<td>-34,969</td>
</tr>
<tr>
<td>National Security</td>
<td>-2.249</td>
<td>-13,475</td>
</tr>
<tr>
<td>Industrialization</td>
<td>-4.886</td>
<td>-7,114</td>
</tr>
<tr>
<td>Provision of Workplace</td>
<td>-8.470</td>
<td>-7,593</td>
</tr>
<tr>
<td>Community Development</td>
<td>-11.485</td>
<td>1.412</td>
</tr>
<tr>
<td>Community Prosperity</td>
<td>-8.618</td>
<td>-17,017</td>
</tr>
<tr>
<td>Community Needs</td>
<td>-2.266</td>
<td>-12,722</td>
</tr>
<tr>
<td>Sufficient Market Supply</td>
<td>-5.062</td>
<td>0.669</td>
</tr>
</tbody>
</table>

The t-test also reveals that the socio-political objectives may conflict with the profit and efficiency stated objectives, and these may have impacts on the SOEs financial performance. For this reason, this study examines the intensity of these impacts using the regression. The test results as shown on Appendix 1 reveal that the existence of socio-political objectives makes the profit and efficiency objectives having negative mixed impacts on the SOEs financial performances. For example, the SOEs operating expenses increase for 91,66 points, while the objective decreases the SOEs operating profit margin for -77,34 points. In contrast, the management efficiency stated objective presents no influences on the SOEs’ financial performance. This situation indicates that the combined between socio-political and profit objectives encourages the company to spend more on their cost which leads to the declining of their margin from the operation. This situation also proved that the socio-political objectives eroded the SOEs profit.

The existence of socio-political, profit, and efficiency objectives are likely to present the domination of the socio-political stated objectives’ impacts on the SOEs financial performance as shown on Appendix 1. The national economy development stated objective presents its positive significant impacts on SOEs’ revenue, operating profit margin and share prices. The existence of the national economic improvement stated objectives increases the SOEs revenue, operating profit margin, leverage, and share prices for 76,348; 19,695; 25,025 and 76,828 points, respectively. Meanwhile, the national development improvement stated objective presents its positive
impact on the SOEs’ operating profit return and EBIT Margin for 95,763 and 71,491 points, respectively. The requirement for SOEs to focus on community is presented through the stated objectives such as the requirement to improve the community development, community prosperity, community needs, sufficient supplied of public goods and services in the market, and provision of workplaces. The existence of objectives indicates positive impacts on the several SOEs financial performances such as net income, revenue, asset turnover, EBIT margin, ROE, and operating profit return.

Despite the positive impacts, the existence of the socio-political stated objectives combined with management profit and efficiency show their negative impacts on some financial performances. As seen on Appendix 1, the national economic improvement for example presents its negative impacts on operating income, operating expenses, net income, operating profit return, debt, and asset turnover. The national development improvement stated objective shows its negative impact on the operating income only. Meanwhile, the requirement for SOEs to focus on the community as presented through the stated objectives on community issues present their negative impacts on the leverage, share prices, net income, and asset turn over. The SOEs asset turn over is likely to decline when the SOEs are required to focus on the community development, provision of community needs, and sufficient of supply objective. The share prices decline for 109,087 points when the company is required to consider the community prosperity. At the same time, the requirement for the provision of workplace causes the declining of 3,818 points on the SOEs’ net income. This situation strengthens the multitask theory where the SOEs are still required to carry several duties which lead to slow profit growth (Bai et al., 2000). The declining of SOEs financial performance occurred when the company must meet the socio-political objectives.

Part of the government entity, SOEs are required to carry the social welfare functions. The impacts of the potential conflicting objectives are found in several socio-economic functions of SOEs. The existence of socio-political and management profit and efficiency stated objectives presents their various impacts on the SOEs socio-political performances as shown on Appendix 2. The management efficiency stated objective present its positive impact on dividend paid by the SOEs for 117,067 points. The management profit stated objective shows its negative impacts on the employees’ numbers and labor cost, while the management efficiency stated objective cause the declining of effective dividend rate. This situation shows that the increasing numbers of employees leads to the increasing of cost which means the profit and efficiency objectives are less likely to be met.

The impacts of socio-political stated objectives on the SOEs social welfare performance does not fully meet the expectations. The socio-political stated objectives such as national economic improvement presents its positive impacts on the dividend paid by the SOEs for 103,913 points and labor cost for 53,771 points. As seen on Appendix 2 The national development improvement stated objective shows its positive impacts on the employees’ numbers and effective dividend rate. The industrialization objective shows its positive impact on taxes paid by SOEs. The requirement to improve the community prosperity and the provision of market supply stated objectives present their positive impacts on the numbers of employees. In contrast, the national economic improvement causes the declining of the SOEs’ employees’ numbers, employment intensity, effective tax rates and effective dividend rates for -38,401; -23,791; -60,950; and -38,140 points, respectively. The national development improvement stated objective presents its negative impact on dividend paid by SOEs, while the requirement to improve the national security causes the declining of -165,158 points on the SOEs’ employee’s numbers. The community needs stated objective causes the negative impacts on the SOEs’ effective dividend rates, and labor cost for -151,861 and 120,340 points, respectively. These results show that the macro impacts of socio-political objectives such as national economic, national development or industrialization encourage the company to have better social welfare performance.
DISCUSSION

SOEs as the government agent often deal with different roles. As the economic entity, the role of SOEs is not limited to provide the public goods and services, SOEs are required to be the economic backbone of the government. The requirement to support the economic activities or state budgets make the performance of SOEs crucial in term of profitable. Earlier study presents significant contribution of SOEs in the national economic as well as to support the government in the provision of socio-political functions (Lazzarini and Musacchio, 2018). The fact that government intervenes within the companies remains stronger, makes the objectives of SOEs not limited on profitable or shareholder maximizing value only. The economic development or community prosperity becomes crucial as presented through the government’s objectives for SOEs. The social political objectives become the main concern of SOEs’ shareholders: the government and politician. These objectives are reflected through their duties and functions in the provision of socio-political welfare for community. These objectives as implemented through the SOEs functions are potentially conflicting with the requirement to be profitable and efficiency. As the consequences, the profit and efficiency objectives are less important compare to those socio-political objectives (Lazzarini and Musacchio, 2018) as also presented through these study results. The statistic results from previous section reveal the potential conflicting objectives between the government and management of SOEs occurred when the profit and efficiency are intertwined with socio-political objectives. The t-test results support the fact that the combined of socio-political, profit and efficiency stated objectives has emerged the potential conflicting objectives.

Despite the potential conflicting objectives, the development of new trend in business has strengthened the government social welfare objectives for community. The requirement for company to promote the common goods becomes new business perspective and professionalism of the management. This new business trend is also driven by the development of governance issues which become the public concern. Professionalism is now related to ethical principles. This encourages the management to reliance on the ethical principles and balance the economic objectives with social and environment consideration (Zalewski, 2003). As a result, the obligation for the company to consider the community emerges following the requirement for the company to comply with the corporate governance principles (Jones and Felps, 2016). The customers demonstrate their value on the corporate’s concern on the community. This becomes the main factor that influence the business and management action. Public and market play significant roles on encouraging the company to maximizing profit through produce better social welfare (Jones and Felps, 2016). The requirement to be profitable is now in line with the better social welfare for the community. This is against the earlier study regarding SOEs socio-political functions and the requirement to be profitable and efficiency where social welfare objectives have a tendency to hinder the company’s from profitable and efficient (Blackman, 1995; Gunness, 1994; Hanschen and Erspamer, 2004; Martin, 1996). Management starts to pay more attention on social welfare issues as part of their professionalism as well as to improve the company’s value. Social welfare and environment become the management interest as these give effect directly on their own performance. In practice, for some SOEs management, the interests are not limited to social welfare and professionalism, they may have political interests. This is supported by the earlier study for the potential political orientation management within SOEs (Lioukas et al., 1993; Zif, 1981). Management also presents their concern on the community shown through the community prosperity and development stated objectives. The emergence of new social welfare considerations facilitates and motivates the SOEs management to focus on these objectives. As a result, profit and efficiency objectives are neglected.

The impacts of new trends in business cause the management starts to present their social welfare and environment concern as part of their stated objectives. In several cases, the management interests may not be similar to the shareholders interests. This study reveals that while the management
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concerns about the social welfare interests, management has a tendency not to acknowledge the government social welfare objectives for SOEs. This study identifies 18 government stated objectives. Only 15 objectives are acknowledged by the management. In addition of these 15 objectives, management develops other 16 stated objectives which dominated by more socio-economic goals such as competition, market domination, corporate value, sustainability, and stakeholders’ value. This situation proves the difference between the government and management. These differences also present that management must deal with the pressure from market and stakeholders to produce better welfare for the community and environment in addition to the existing objectives. These objectives and interests motivate SOEs managers’ action (Elhauge, 2005) to meet and manage the expectations and requirements.

The introduction of privatization presents another government ambiguity in determining the objectives for SOEs. The introduction of privatization particularly aims to improve the Indonesia SOEs performance. At the same time, it is used to save the state budget. Earlier study reveals that privatization proceed is often used or reallocated by government to other purposes such as paying debt, or critical functions (Milhaupt and Pargendler, 2017). As the result, privatization is less likely to be part of the performance improvement rather than to resolve the government’s financial problem. While profit and efficiency objectives become the government concern for the publicly listed SOEs, the government has never changed its stated objectives on SOEs even after the SOEs were privatized. This supports by the statistic results on the previous section. The unchanged of government stated objectives for SOEs and some requirements to be met by SOEs support the multitask theory of SOEs that the SOEs still need to carry several objectives and functions even after the privatization. The government resists to reduce its control and review the objectives due to pressure and requirement in the provision of social welfare for community.

The combination between profit, efficiency and socio-political objectives on this study indicates the potential conflicting which significantly affects the SOEs financial performance. Focusing the term of corporate objectives as the what the company aims to achieve or maximize (Blount and Nunley, 2015), these objectives are the things that SOEs are going to accomplish. As shown on the previous section, the results of combination between economic and socio-political objectives indicate that the requirement to fulfill the socio-political expectation are stronger. The consequence of these domination in socio-political objectives is presented through the limited impacts of profit and efficiency on the SOEs performance. The statistical results support it as presented through the existence of socio-political objectives that causes the profit and efficiency objectives less effective. This statistic results on the previous section present that the socio-political objectives discourage the SOEs to present better performance on several SOEs financial and social welfare performances. This result supports the previous study that socio-political objectives erode the SOEs profit (Aharoni, 1981; Yarrow, 1999) as well as hinder the possibility to become efficient. Focusing on the SOEs socio-political functions of SOEs, the impacts of political objectives such as employment and community matters are less likely significant on the SOEs performance. The combined of socio-political, profit and efficiency stated objectives
are potentially in conflict since the socio-political objectives are more dominant than profit or efficiency stated objectives. As the result, management action is less likely to be influenced by profit and efficiency objectives as shown through the SOEs financial performance. The fact that these SOEs profit and efficiency stated objectives are contradiction to other objectives, the accomplishment is far from these expectations. The contradiction also leads to the lack of accountability (Milhaupt and Pargendler, 2017). As the result, SOEs remain presenting their poor performance and inefficiency which often found within the developing countries like Indonesia. These poor performance and inefficiency put the SOEs as burden for the government budget (Fitriningrum, 2015; Haggarty and Mary, 1997; Marimuthu, 2020). The economic function of SOEs is no longer in term of maximizing profit or return from their business (Marimuthu, 2020). Taxes and dividend are an obligation for the SOEs rather than contribution. Focusing exclusively on taxes and dividend, the statistic results from the previous sections support it as the results demonstrate limited impacts of the efficiency and profit objectives on the taxes and dividend paid by the SOEs. The data present that tax and dividend are determined by the government which supported by the insignificant results of the effective tax rate and dividend rates performance. This situation reveals that the domination of government remains strong within the SOEs even after the privatization. The requirement for the SOEs to be profitable and efficiency conflict with the government socio-political functions which make the profit and efficiency objectives ineffective.

CONCLUSIONS AND RECOMMENDATIONS

Conclusions

The roles of SOEs as the government vehicle to the provision of public utilities and economic backbone lead to the emergence of mixed objectives. The government involvement since the beginning of the establishment shapes the Indonesia publicly listed SOEs objectives which dominated by socio-political expectations and the provision to social welfare for community. The introduction of reform through privatization and the government new regulation have encouraged the emergence of profit and efficiency objectives. In practice, the government has never changed its existing objectives within the SOEs. The potential conflicting objectives appear when the management has its own objectives due to its own interest or pressure from market and stakeholders. Management starts to consider social welfare objectives as part of their objectives and interests. In practice, the management interests are different from the government’s expectations. This study reveals that only some of the government socio-political objectives are acknowledged by the management. This supports the earlier study regarding the management SOEs orientations and interests which become the motivation of their action. This study presents that potential conflicting objectives are found when the government and management present their differences on the objectives and interests. The conflict is stronger when the profit and efficiency objectives are intertwined with the macro impacts of socio-political objectives. The existence of socio-political objectives, profit and efficiency objectives have caused the declining of both the social welfare and financial performance of SOEs. The domination of socio-political objectives because the profit and efficiency are no longer the SOEs priority, even when the government introduces new regulations and privatized the SOEs. These results support the multitask theory of SOEs where the SOEs reforms do not stop the SOEs to continue carrying the government social welfare duty. This study also demonstrates that the socio-political objectives with macro impacts such as national economic and development improvement or industrialization are likely to improve the SOEs social welfare performance compare to the focusing on the community objectives. These study results show that there is no difference in term of the government stated objectives even after the SOEs experiences with the reform and change of political regime. The requirement for SOEs to carry socio-political functions remain stronger as presents through the obligation for the company to contribute or resolve the state budget and government financial problem. Tax
and dividends are not the SOEs return to shareholders instead of the SOEs obligation to state or government. The domination of socio-political objectives neglects the crucial of profit and efficiency objectives for SOEs.

Finally, the crucial of national socio-political situation becomes the government main concerns through the roles of SOEs. The expectation to improve the performance of SOEs becomes double swords for SOEs and governments. The requirement to keep carrying the socio-political functions lead SOEs dealing with multitask and expectations where the economic objectives such as profit and efficiency are no longer the priority for government and SOEs. Privatization is not used as to improve the SOEs performance rather than to resolve the state budget problems. As the consequence, the publicly listed SOEs remain presenting poor performance as well as multitask and duties. This study concluded that the SOEs performance is determined by the requirement for government and SOEs in the provision of socio-political situation rather than economic expectations which affect the SOEs financial performance.

Recommendations

The government should pay more attention on the SOE’s performance and going concerns. Lack of control on the SOEs performance leads the poor performance which, in the future, become burden and potential problems for government. The requirement to examine the factors that motivate the SOEs management action on achieving the objectives is a gap of knowledge for further study.

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