

Good Governance Mechanism, Agency Problems and Privatized SOEs Performance: Empirical Evidences from Indonesian Stock Exchange

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ABSTRACT

Focusing on the unique agency problem faced by state-owned enterprises (SOE), this research investigates how key elements of the Good Governance (GG) mechanism affect the likelihood of high performance in privatized Indonesian SOEs through the IDX. The two key elements of the GG mechanism covered are: (i) Internal Rules and Restraints (IRR) and (ii) Competition. Using a binary logistic regression model that categorizes Price to Book Value of Equity (PBV) into high and low performance based on average value, this research uses six independent variables to measure the GG mechanism. Using a 218 firm-years sample derived from 21 SOEs privatized during 1991 to 2014, the empirical results suggest that the GG mechanism has an effect on privatized SOEs' performance level. The IRR variable, namely corporate restructuring and operating efficiency, increases the likelihood of privatised SOEs having high performance. These results indicate that privatization is capable of limiting conventional agency problems between privatized SOE managers and minority shareholders. For the Competition variable, market domination increases the odds of high performance. However, when IRR comes into play, the empirical evidence suggests that government ownership reduces the chance of having high performance. This research confirms, to an extent, the existence of expropriation of minority owners by the state as a majority owner.

Keywords: agency problems, competition, good governance mechanism, internal rules and restraints, partially privatized SOE performance

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