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Dear Author,

After having carefully evaluated your article titled “**MODEL OF BUMN PRIVATISATION THROUGH NEW COMMON STOCK AND ITS IMPLICATION TOWARDS FINANCIAL PERFORMANCE PERIOD 2005-2012**” and taken the referees' advice into consideration, the editors came to the conclusion that your paper is suitable for publication in our Journal

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Model of Bumn Privatisation through New Common Stock and Its Implication towards Financial Performance Period 2005-2012

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Abstract

Megginson, Nash and Randenborgh (1994) confirmed that there had been an improved financial performance on BUMN in Indonesia. The performance of BUMN was influenced by the basic model of privatization (Santoso, 2005). This research was intended to acknowledge and analyze; how was the model of privatization of State-Owned Enterprises (SOEs) in Indonesia?; what was the new common stock or divestment?; how was the price of stock of IPO in SOEs in Indonesia?; What were over-value or under-value?; and how was the financial performance (return on sales, return on equity) of SOEs in Indonesia pre-privatization and post-privatization? The research employed paired sample T Tes of statistic analysis. It aimed to seek for the difference of the financial performance pre-privatization and post-privatization. The research showed that (1) All SOEs were privatized by issuing new stock; (2) four privatized SOEs experienced under-value, and the other one had over-value; (3) two SOEs had better financial performance at post-privatization compared to pre-privatization.

Keywords: IPO, privatization, over and undervalue, return on sales and return on equity.

1. Introduction

State-owned enterprises (SOEs) (in Indonesia namely BUMN) is a business entity in which partly or all ownership owned by government of Republic of Indonesia (Indonesian Language Encyclopedia). Government of Indonesia has made some fundamental regulation change related to ownership of some SOEs in Indonesia. It means that the shares can be owned by public.

Critics appeared related to the existing monopoly or certain regulations for supportive competition (Act. No. 5 1999). The government was considered to be business actors as well as regulator. Therefore, privatization was meant to cope with such problem (privatization is intended to resolve the issue). It was meant to improve efficiency and also profitability. Currently, there were thirteen industrial companies which have been privatized (listed in Table 1)

Table 1: Privatized BUMN Period 2005 – 2011

No	Industry	Listing
1	PT Wijaya Karya (WIKA)	29-10-2007
2	PT Jasa Marga (JSMR)	12-11-2007
3	PT Bank BTN (BBTN)	17-12-2009
4	PT Krakatau Steel (KRAS)	10-11-2010
5	PT Garuda Indonesia (GIAA)	11-02-2011

Source: BUMN (SOEs) on-line Directory

SOEs, either a business or non-business one, have similar features with other kinds of companies. Their success on achieving the objective is mostly influenced by their internal conditions such as marketing, production, resource, and capital. External factor also plays important role for the success of SOEs such as competition, macro economy, technology, and global issue. However, external factor has less influence irrespective of the type of the company either public or private sector. Meanwhile, the internal factor will be highly influenced by the change of company control from government to private sector. Megginson, Nash, and Randenborgh (1994) mentioned that State-owned enterprises (SOEs) often experienced loss. Mostly, they focused on maximizing the labours and developing remote areas. These enterprises were often unprofitable. However, due to their vision and mission which is non-market oriented, they tried to keep running. To overcome this challenge, government provided subsidies for inputs or all losses. In the long run, if this continuously happened, and these SOEs were unprofitable, this became burden for government. To solve this problem, privatization and divestment were considered to be done. Having the companies privatized, it was intended to improve the performance of the enterprises. It was expected that the management of the companies could be controlled better by non-government bodies. The study showed that the performance of companies were improved after the privatization.

The concept of privatization was focused on the interest of the company for its development. To develop the company, capital was required. One of the ways to have the capital was through gaining new stock. Privatization model in the form of divestment only resulted on the transfer of stock from government to private sector. It is due to the stock purchasing would be delivered to APBN (Nation's Budget Revenue Expenditure) and would be used for yearly budgeting. In the short run, this became the treasury. However, in the long run, this would give APBN loss due to the less demand for deviden.

The existing amount of cash flow in the privatization is influenced by stock price in the primary market (IPO). There are two possibilities. First, the stock price is exceedingly cheap, namely underpricing. Second, it is too expensive called over-pricing. Under-pricing happens due to the less optimum of the budget gained from privatization. There are many factors influencing under-pricing or over-pricing at IPO. Febriana (2004) mentioned that under-pricing is influenced by auditor reputation, underwriter, company age, solvency, and profitability. It has been known that privatized SOEs are those who have huge asset and reached decades of age.

2. Literature Review

State-Owned Enterprises (SOE)

State-owned enterprises (SOEs) is a business entity in which partly or all ownership owned by the government of Republic of Indonesia. The firm can be in the form of non-profit firm aimed to provide goods or services for community. Some SOEs in Indonesia, the government has significantly changed the ownership status. It means, the company stock can be owned for public. The purpose of this SOE is to give more contribution to national economy and the national cash flow, earn more profit, meet the need of society, stimulate business activities and give assistance and protection for small and survival enterprises.

Privatization and Divestment

Privatization focuses on the property rights. Private sector has the right as the owner of the businesses. It means, the stock is sold in the domestic and international market, or the private placement (Team BEJ, 1996: 335-336). Privatization is often called denationalization. Kompas (24 March 2002) mentioned that:

1. Privatization is defined as the transfer of control of a company to management of the private owners. This means that the majority of the shares owners of the firms are changed.

Hence, there is a government control change. The government has no longer become the actors, but as the regulators and policy makers. Then, the managers will be responsible to the new owners.

2. Privatizing BUMN means that the stock purchasing from the government to private sector (domestic or foreign)
3. The placement of the government stock is meant not only to earn profit for the sake of Nations's Budget Revenue Expenditure (APBN), but also to improve the performance of the SOEs themselves, to accelerate good corporate governance, to open better access for international market, and transfer knowledge and best practice for SOEs, and also to have better work culture condition.
4. Meanwhile, divestment is the process of selling off a portion of a business unit or corporate asset (Harianto, Sudomo, 1998:779).

The last category of privatization is used by Indonesian government in May 1997 to privatize five SOEs. They are PT Semen Gresik, Indosat, Tin Mine, Telkom Indonesia, and PT Bank BNI 1946. These five SOEs shares were sold no more than 35% of the total shares (Team BEJ: 1996:341).

Go Public

Public Offering or sometimes called Go Public or IPO (Initial Public Offering) is an activity of offering or other securities in which executed by the Issuer (the go public company) to the public based on certain procedures and regulations set by the Capital Market Law. Public Offerings include main activities. They are the initial period when the securities market are offered to investors by the capital owner and Issuer warrantor through appointed selling agents; allotment of shares that investors allocate order. This effects the number of available stock available such as recording stock (listings). That is when the stock is began to trade on the Exchange.

Companies that conduct public offering can gain several benefits. They can obtain relatively large funds and get them all at once. Usually, these funds are used to develop the business (expansion), improve the capital structure and increase subsidiary participation or acquire other companies, pay off some debts, add capital, have relatively low cost of going public, have relatively easy process; and make the issuers easily well-known by the public (go public is a promotion media) for free. Besides beneficial for companies, public offerings also provide benefit for society to participate and have the company's shares and obtain various shareholder rights. The same opportunity will be given to the employees to participate in company's own shares.

Overpricing and Underpricing of IPO

Stock price of the initial offer is an indicator of the success of the IPO. If the number of shares offered remains steady, then the funds received from the IPO is largely determined by the initial price. There are two possibilities that could happen to the stock price after the offering. The IPO price is greater than that of the initial price traded on the secondary market. This share price condition is called overpricing. In contrast, if the price is lower than that of the secondary market, then the condition is called underpricing (Kusuma, 2001:61).

Underpricing is a condition that the stock price of the IPO is lower that that of the secondary market. Basically, the pricing share is determined by an agreement between the issuer with underwriter. Meanwhile, the stock price in the secondary market is the result of market mechanisms that is based on the existing supply and demand (Febriana, 2004:13-14).

The phenomena of overpricing and underpricing are an interesting topic in the literature of finance. The condition should not occur because the IPO price should reflect all available information prior to the IPO issuers with underwriters while spreading information prospectus to various investors. Prospectus is information about the issuer's financial and non-financial condition. According to

Trisnawati (1999) prospectus information is one of the main information resources used by investors to decide whether they want to invest in the listed companies in the stock market.

Company Performance

Performance measurement is one of significant factors for a company. These measurements can be used to assess the success of the company and be a basis for planning the company's reward system (Secakusuma, 1997:8).

Kaplan and Norton (1992:14) have tried to measure the company's performance by considering four aspects. They are financial perspective, customer, process of internal business, and learning and development. The idea on balancing the measurement of the financial and non-financial aspects was then called Balanced Scorecard.

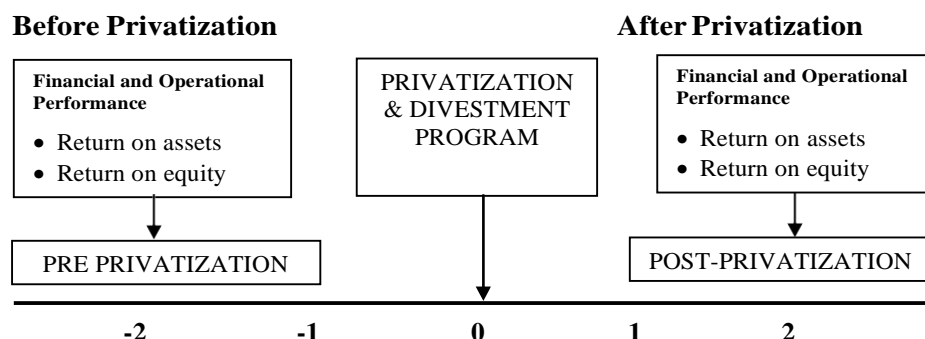
This research focused on the financial and operational performance such as how the performance of the State Owned Enterprises after the privatization and divestment. One indicator of financial performance is the level of profitability. This level showed whether the company's goal has been achieved or not. The better the financial performance is, the better for the shareholder. This condition will determine the stock price and the subsequent prosperity of the shareholders (maximizing stockholder wealth). Husnan (1998:336) stated that fundamental analyst tried to predict future stock prices. It was confirmed that there was a strong relations between the company's ability to generate profits with stock prices, the increase of profit and stock price. This means that there was a positive impact on stock prices.

Theoretical Framework

Particularly, enterprises, and generally, the industry, either as a profit-oriented business organization or as production agents are expected to always have a good performance. This research did not specifically discuss how to create good performance. However, it focused on comparing the financial performances of enterprises classified in State-Owned Enterprises (SOEs).

The performance measurement in this study referred to the work resulted by the work of Megginson, Nash, and Randenborgh (1994:422). It was stated that in assessing the performance of companies, two (2) proxies can be used. For instance, financial performance indicators of profitability aspects: (1) return on assets (ROA) which is the ratio of net income to total assets; and (2) return on equity (ROE), which is the ratio of net income to equity. Financial ratios are a fundamental variable in the study.

Figure 1: Conceptual Framework



3. Research Methods

Types of Research

This study is a causal research. Zukmun (1991) mentioned that the objective of such research is to identify causal relationship between variables, and to explain its relations. Hence, this study is also

referred to an explanatory research which is aimed to explain the relationship between variables through hypothesis testing (Singarimbun, 1989:5).

Population and Sample

The population of this study was all companies including in SOEs which were classified as go-public companies. There were 170 companies. The sampling method used was purposive sampling. There were:

1. The Privatized SOEs period 2005 – 2012
2. The availability of the financial statements before and after two-year go public

Based on the above criteria, there were 5 SOEs which have been privatized. They were T Wijaya Karya Tbk, PT Jasa Marga Tbk, PT Bank BTN Tbk, PT Krakatau Steel Tbk, and PT Garuda Indonesia Tbk.

Data Collection Techniques

Primary and secondary data were used in this study. Documentation technique was employed to gather the data. Primary data was gathered by conducting interview with several officers of BAPEPAM and Jakarta Stock Exchange and other practitioners from capital market. Secondary data was obtained through written or printed data such as balance sheet, profit/loss, and other records on financial report from companies listed in the Jakarta Stock Exchange.

Operational Definition of Variables

Every variable is operationally defined as follow:

Return on Assets (ROA)

Return on Assets (ROA) is an indicator of financial performance of the profitability aspect. It measures how many net income in rupiah earned from one rupiah of company's sale. It is measured by comparing the net income and the total asset.

Return on Equity (ROE)

It is an indicator of financial performance of profitability aspect. It measures how many net income in rupiah earned from one rupiah of its own capital. The formulation of this measurement is the comparison of the net income and equity.

Table 2: Definition of Research Variable

No	Variable	Concept	Formula	Scale
1	Return on Sales (ROS)	An indicator of financial performance of the profitability aspect. It measures how many net income in rupiah earned from one rupiah of company's sale.	$ROS = \frac{\text{Net Income}}{\text{Sales}}$	Ratio
2	Return on Assets (ROA)	It is an indicator of financial performance of profitability aspect. It measures how many net income in rupiah earned from one rupiah of a company's asset	$ROA = \frac{\text{Net Income}}{\text{Total Assets}}$	Ratio

Technical Analysis

Referring to the conceptual framework, there were financial ratios as the financial performance indicator; Return on Sales, Return on Assets, Return on Equity, Sales Efficiency, and Net Income Efficiency. Then, these indicators were assessed before and after the privatization of the program. These ratios should be able to measure and analyze either qualitatively or quantitatively. The data gathered were processed using Statistical Product and Service Solutions (SPSS). The descriptive analysis was used to analyze and describe the data. Then, Paired Sample T test was employed. It means that two similar samples were used but they were treated differently.

4. Result and Discussion

Results

Model of SOEs Privatization Period 2005-2012

Five SOEs that were privatized period 2005-2012 were PT Wijaya Karya Tbk, PT Jasa Marga Tbk, PT Bank BTN Tbk, PT Krakatau Steel Tbk, and PT Garuda Indonesia Tbk. There were some questions on the government policy of privatization whether they used the pattern of the issuance of new shares, or divestment. It could also be possible that the government used both new shares issuance and divestment.

Under Dan Over Value

Table 3 illustrates the result of the fifth initial return calculation of the privatized SOEs period 2005 – 2012 based on the above formulation. Kusuma (2011: 65) calculated over and underpricing as follow:

$$\frac{(\text{Initial market price} - \text{Issue price})}{\text{Issueprice}} \times 100\%$$

Table 3: Initial Return Calculation

No	Emiten	Listing	IPO Price (Rp)	Initial Price	IR (%)
1	PT Wijaya Karya Tbk.	29-10-2007	420	560	33
2	PT Jasa Marga Tbk.	12/11/2007	1700	2050	21
3	PT Bank BTN Tbk.	17-12-2009	800	840	5
4	PT Krakatau Steel Tbk.	10/11/2010	850	1270	49
5	PT Garuda Indonesia Tbk.	11/2/2011	750	620	-17

Source: Processed data

a. Under and Overvalue PT Wijaya Karya Tbk

Table 3 shows that the IR was 33%. It had a positive number. It means that the shares of PT Wijaya Karya IPO experienced undervalue. Issuers were at the unfavourable position because the IPO proceeds were less than that of they were supposed to be. Investors who were successful in buying the shares at the time of the IPO which directly sold the shares in the primary market was ensured to have substantial gain about 33% in less than one month period. In general, the underwriters were also benefited from the shares because IPO shares that experienced undervalue were also having oversubscriptions (shares offered by the issuer in the IPO were less than the demand). The underwriters only took a little or no risk to buy the stocks which were not sold in the IPO.

b. Under and Overvalue PT Jasa Marga Tbk

Table 3 shows that the IR was 21% meaning that it had a positive number than that of the shares of PT Jasa Marga when IPO experienced under value. Issuers in the unfavorable position because the IPO proceeds were less than they were supposed to be. Investors who were able to buy shares at the time of the IPO, that were later, they sold the shares directly were ensured to have substantial gain of about 21% in less than 1 month. In general, the underwriters also benefited from a little more IPO shares that have also experienced oversubscriptions and undervalue (shares offered by the issuer in the IPO were less than the demand). The underwriters only took slightly risk or not at all to sell the unsold shares.

c. Under and Overvalue of PT Bank BTN Tbk

Table 3 shows that IR was 5% due to the stock had a positive rate of PT Jasa Marga. The IPO underwent undervalue. Issuers were in the unfavorable position because the IPO proceeds were less than they were supposed to be. Investors, who were able to buy shares at the time of the IPO, and later, in the primary market, they were able to sell their shares directly would have substantial gain of around 5% in less than 1 month. In general, the underwriters also benefited from a little more IPO shares that

have also experienced oversubscriptions undervalue (shares offered by the issuer in the IPO were less than demand). The underwriters took only slightly risk or not at to buy unsold stock at IPO.

d. Under and Over Value PT Krakatau Steel Tbk

Table 3 shows that the IR was 49%. It had a positive number than the shares of PT Krakatau Steel when IPO experienced under value. Issuers were in the unfavorable position because the IPO proceeds were less than they were supposed to be. Investors, who were able to buy shares at the time of the IPO, and then later in the primary market were able to sell their shares directly, they received substantial gain of about 49% in less than a month. In general, the underwriters also benefited from a little more IPO shares that have also experienced oversubscriptions undervalue (shares offered by the issuer in the IPO were less than the demand).

e. Under and Over Value PT Garuda Indonesia Tbk

Table 3 illustrates that the IR was -17%. Since it had a negative number which made the shares of PT Garuda Indonesia at the time of the IPO experienced overvalue. Issuers were in a better position because of the IPO proceeds were much more than they were supposed to be.

Investors, who were able to buy shares at the time of the IPO and then could sell directly on the primary market shares will certainly lose a lot of money (loss) at around 17% in less than 1 month. In general, the underwriters were also in a position to have no benefit from the IPO stocks which experienced overvalue and undersubscriptions (shares offered by the issuer in the IPO were more than the demand). The underwriter took the risk by buying the unsold shares in the IPO.

Financial SOEs Performance

Table 4 illustrates the overall financial performance of the five companies and their stock price whether they were over or undervalue 4.

Table 4: Summary of Financial Performance nnd Stock Price of All Emiten

EMITEN	ROA (%)			ROE (%)			IR (%)
	Before	After	Growth	Before	After	Growth	
PT. Wijaya Karya, Tbk.	3,23	3,48	7,74	19,52	13,49	-30,89	33
PT. Jasa Marga, Tbk.	3,54	5,84	64,97	14,31	13,67	-4,47	21
PT. Bank BTN, Tbk.	1,06	1,21	14,15	16,38	1,21	-14,41	5
PT. Krakatau Steel, Tbk	3,68	2,40	-34,78	8,49	8,19	-3.53	49
PT. Garuda Indonesia, Tbk.	4,13	3,51	-15.01	18,90	8,19	-56,67	-17

Discussion

State-Owned Enterprises

Based on the sample of the research, there was no SOEs that executed divestment. All of them issued new shares in the privatization. This condition was ideal since privatization was conducted to increase the capital. It did not mean to sell shares of ownership for the sake of the shortfall. If this happened, the equaity of the company in post-privatization (issuer) would have been bigger compared to that of pre-privatization and had bigger opportunity to run the company. For instance, PT Garuda used the budget from IPO to renew its armada such as buying new Air Bus or Boeing.

Three out of five SOEs in the research were found to have the profitability improvement seeing from the ROA condition after privatization. Meanwhile, the other two was found to have profitability decrease. They were PT Krakato Steel and PT Garuda. These were due to their inefficiency in running the business after the privatization. The budget resulted from IPO did not meet the expectation of the share holders. Seeing the ROE, the profitability level was found to be worse. All SOEs, as the objects of the research, were found to have ROE decline. This condition showed that the budget resulted from the IPO was not efficiently used by privatized SOEs.

These findings were expected to be useful for interest bodies who have authority in dealing with state owned enterprises in Indonesia such as to evaluate and improve performance. It is undeniable that all companies face high competition. Nevertheless, some improvements could be made for better performance. In fact, during the privatization, all state- owned enterprises received funds from the public and were expected that the funds could be used for their competitiveness. Hence, they could face the competition in the market and have better performance.

The decline of performance will be worse since there will be paralel decrease of performance in the share price. The worse the performance is, the cheaper the price of the stock will be. It means that the value of the company will be cheaper and more open opportunities for other companies to take over the shares such as other more powerful partie like investors or foreign governments. It is known that SOEs usually operate in a strategic field due to its capacity to meet the needs of wider community. If it is taken over by foreigners, it means that community will be very dependent on them. In the long run, this condition is threatening Indonesian. This could even endanger the integrity of the nation and the state.

Overvalue and Undervalue SOEs

Based on the sample of the research, most SOEs were privatized during the under-value condition. There were only one SOEs experiencing overvalue. It was PT Garuda Tbk. Four SOEs experienced under-value at IPO and was interpreted to be the loss for the issuer (government RI). This was due to the budget gained from the IPO was lower than that of the overvalue. Undervalue was interpreted as cheap purchasing stock. If the price of the stock increased, the IPO budget would be higher and the issuer (government RI) could earn more.

This empirical evidence could be interpreted that the government of Indonesia, in the privatization process had offered cheap shares in the market. There were many factors influencing this condition. For instance, the condition of macro and micro economy. In the future, it is expected that the government will have conducted a research deeper prior to the privatization program. Hence, the IPO SOEs will not be undervalue

The Financial Performance Post-Privatization

At the post-privatization era, there were two out of five privatized state-owned enterprises experienced profitability (ROA) and was statistically significant. They were PT Jasa Marga and PT Bank BTN. Meanwhile, PT Wijaya Karya was found to have statistically insignificant increase. However, PT Krakatau Steel and PT Garuda Indonesia experienced statistically insignificant decline.

Having seen from the profitability (ROE), the five privatized SOEs seemed to be statistically insignificant in decline. The empirical evidence confirmed that there was relation between overvalue company with financial performance (ROE). The overvalue companies during the privatization had lower performance (ROE) compared to those privatized company having undervalue.

5. Summary and Concluding Remark

State-Owned Enterprises in Indonesia have been privatized in the period 2005-2011. There were no company that has conducted divestment. This means that all companies issued new shares that have increased the equity after privatization. State-owned enterprises, which were privatized in 2005-2011, were mostly undervalue. It means that the issuers (government Indonesia) gained loss due to the IP budget was lower than it was supposed to be.

Two State-owned Enterprises in which privatized in 2005-20011 had an improved financial performance (ROA) compared to the period before the privatization. Five State-Owned Enterprises were found to have financial performancce (ROE) decline. However, it was found to be statistically insignificant. The greatest financial performance (ROA) decline happened when SOEs experienced over-value during the IPO.

In the future, the similar study is expected to be conducted by adding more financial performance indicators and period of research. It needs also to consider extreme economic condition

such as financial crisis in 2008. This kind of condition also influences the company profitability to reflect its normal condition.

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