SUMMARY

BAMBANG SISWAJI. The Influence of Institutions and Strategy to the Performance of State-Owned Enterprises (SOE). Supervised by NUNUNG NURYARTONO, BUSTANUL ARIFIN, and MUHAMMAD SAID DIDU.

State-owned Enterprises (SOE) play important roles in the Indonesian economy. Performance of SOE affects the growth of national economy. The performance of SOE in general shows positive trends, although in some aspects there are still rooms for improvement. Parts of obstacles faced by SOE with unsatisfactory performance are institutional factors that require further improvement. These obstacles can be further described as the legal, political and social aspects that constrain the enterprise to pursue appropriate strategies to achieve its goals. Based on literatures, institution influences strategy that leads to performance of enterprise. If the relationships hold for SOE, the improvement of institutional environment will have the positive impact on the improvement of SOE’s performance.

The research questions are: 1) whether institutions influence SOE strategy and how? 2) Whether strategy influences SOE performance and how? 3) Whether institutions influence SOE performance and how? 4) How SOE institutions emerge? The research is conducted with some limitations, namely: (a) only for SOE Persero; (b) the SOE strategy and performance will not be evaluated based on specific condition linked to SOE resources and capability, and industry competition where the SOE operates.

The research is designed as combination of quantitative and qualitative approaches. Quantitative research investigates the causal relationship between institutions, strategy, and performance variables. Data collection was conducted using expert survey method with five intervals Likert scaled questionnaire. Sample respondent of the research were selected from predetermined Persero SOE, in order to obtain adequate representatives based on current SOE issues. Data were analyzed using Regression Analysis and Structural Equation Modeling (SEM). Then, qualitative research using Historical Institutional Analysis was used to get deeper understanding on how institutions emerge, perpetuate, and change.

The research result shows that institution variable significantly influences SOE’s strategy; institution variable also directly influences SOE’s performance; on the other hand, strategy variable does not have significant influence on SOE’s performance. Strategy does not influence SOE’s performance due to the dominant roles of institution, especially political and/or governmental interventions, beside the research design that emphasizing financial performance and market strategy in operationalizing its variales.

The research also confirms twelve SOE’s institution indicators, nine strategy indicators and two performance indicators. Among twelve institution indicators, seven of them were judged as unfavorable to SOE, which are: a) mechanism and practice of performance contract; b) sectoral regulation and standardization sufficiency; c) regulation on business scope/activity; d) asset/wealth status as state’s wealth; e) support on GCG implementation; f) company’s status as SOE; and g) status of Commissioner, Directors and employees that can be perceived as state’s officer. The other five institution
indicators were judged as unfavorable to SOE, which are: 1) politics/government agency intervention; 2) regulation and procedures on assets and financial management; 3) shareholder intervention and bureaucratic process on strategic decision; 4) rule and norms/common practices on employment dispute settlement; and 5) procedures and practices on director and commissioner selection.

The relatively lower performance of some SOE compared to their private peer and the ineffectiveness of SOE strategy are due to the institutional constraints, especially the ones judged as unfavorable to SOE. Considering the institutional factors have emerged due to a chain of historical events especially treatment and regulation set by the government or other authoritative body, SOE institutions could be improved to increase strategy effectiveness and performance of SOE.

Policy implication emerges from this research is the need for institutional condition improvement, among others are: 1) to overcome politics/government agency intervention, and shareholder intervention and bureaucratic process on strategic decision, by: a) positioning SOE as purely corporate entity by strengthening SOE law and harmonizing state finance law; b) establishment of SOE holding company; and c) selection of SOE director and commissioner conducted based on corporate mechanism; 2) increasing the effectiveness of procedure and practice of SOE director and commissioner selection; 3) improvement of regulations and procedures on SOE assets and financial management; and 4) strengthening the rules and norms on /common practices on employment dispute settlement. On managerial level, SOE’s management needs to strengthen the rules, procedures and corporate culture that are oriented to performance, efficiency, and competitive advantage, equipped with the capacity of innovation and strategic respond to market and environmental changes, in accordance with the GCG principles. These rules, procedures and corporate culture are needed to neutralize the unfavorable effects of institutions, including external intervention to SOE; and also to capitalize the potential and strategic opportunity of the status of SOE to increase SOE performance.

The research also contributes to theory with empirical result that strategy does not influence enterprise performance in certain context, with some limitations of: a) all research samples are enterprises that majority owned by government; b) research design does not consider the variations of SOE business characteristics and uses cross-section data; and c) limitation on variable measurement; strategy consist of market strategy only, and performance is based on financial-accounting measurement only. Further research is recommended with approach that separates SOE group based on certain characteristics, takes into account the change in SOE performance across the period (longitudinal), and employs more comprehensive measurements of strategy and performance variables.

Key words: historical institutional analysis, institution-based strategy, state-owned enterprise, structural equation modeling.