CORPORATE GOVERNANCE, NAWACITA, AND FINANCIAL PERFORMANCE OF SOES IN INDONESIA

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Abstract

This study examines the effect of Corporate Governance (CG) assessment with CG index, Nawacita, and elements of CG index (Board of Commissioners, Audit Committee, Ownership, and Risk Management and Nomination & Remuneration Committee/RMNR Committee) on the financial performance (ROE) of SOEs using panel data analysis. The samples used SOEs that is included in the sector of government program called "Nawacita" consisting of hunting and fishery sector, food sector, mining sector, manufacture industrial sector, and construction/tourism sector for the period 2012-2017. The results show that CG assessment, Board of Commissioners, Audit Committee, and RMNR Committee have significant effect, and the ownership has no effect on the financial performance of SOEs. The result indicates that the higher score of CG assessment will have impact on financial performance of SOEs in Indonesia. Nawacita program indicates that financial performance of SOEs has not been optimal yet for the citizen welfare in the short term.

Keywords: *financial performance, corporate governance index, and Nawacita.*

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INTRODUCTION

The government has many roles in national economics and one of them by establishing SOEs as agent of development and seek profit for the country (SOEs Ministry, 2016). SOEs is established by Laws, including state capital participation because it uses public money. SOEs is hybrid organization because it is allowed to manage two types of funds from government capital and public funds obtained from sale of shares (The Law No. 19 year 2003). Thus, SOEs run the business must follow Good Corporate Governance and also to be Public Services Obligations (PSO).

SOEs has many roles to play and the main problem are professionalism and governance (Police brief of SOEs, 2016). The financial performance of SOEs required to be professional like private business and must comply to the laws and regulations (Ministry of SOEs, 2016). Good Corporate Governance principles and professionalism must take precedence because of many conditions that affected on performance of SOEs. SOEs has important roles in supporting the economy in various countries. The roles are: the provision of infrastructure, employment, contributing to the Gross Domestic Product (GDP) and economic growth of a country (Nurharjanto, 2016).

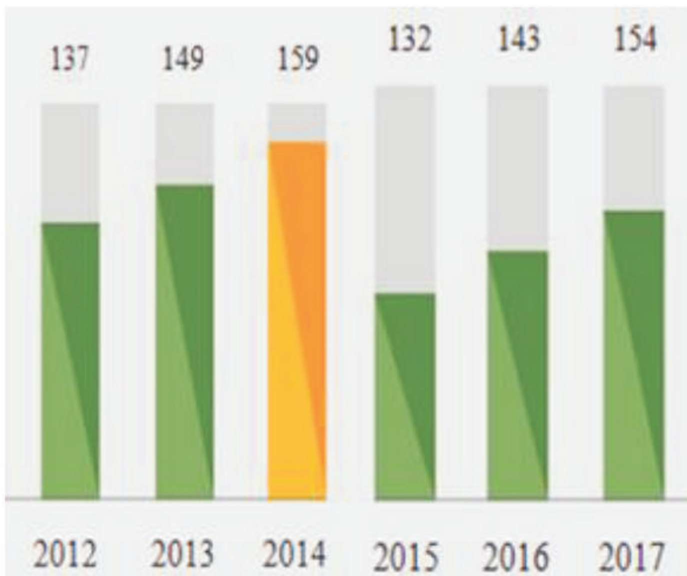
The important role of SOEs makes the government strives to maintain the growth and sustainability of SOEs. one of government's effort in developing SOEs is lied on the current government program known as "Nawacita". Nawacita is derived from the Sankrit word "nawa" meaning "nine" and "cita" meaning "ideals/expectation/agenda" which is consisting of nine government priority agendas (Ministry of SOEs, 2016). From nine government priority agendas, this research focuses on the seventh program of the Nawacita: to realize independent economic by developing the strategic sectors of the domestic economy.

There are five strategic sectors that becomes the government priority, namely agriculture, hunting & forestry sector, fishery sector, mining and quarrying sector, construction sector, and manufacturing industrial sector (financial and services authority, 2016). The government wants to make the five priority sectors become an independent company by securing maritime resources, and reflecting the personality of Indonesia as an archipelagic country. The independent here is defined as not to depend especially on the primary needs to producers or other countries (Ministry of SOEs, 2016), because the priority sectors are a great strength and potential.

The priority sectors of the government's economy are sectors that have great potential to be more explored and those can improve financial performance so that the contribution to the Indonesia's GDP is greater in order to achieve the citizen welfare. The performance of SOEs in the government's economic sector is in the spotlight in supporting the "Nawacita" program which aims to improve self-reliance. The support of SOEs through Nawacita program is expected to accelerate the development and to gain achievement from its performances since it is also supported by additional fund from government capital for SOEs which included as the "Nawacita" program. (Ministry of SOEs, 2016).

SOEs as an agent of development plays an important role in realizing the goal of "Nawacita" program set by the government. A program of "Nawacita" which one of them wants to realize economic independence so that SOEs is predicted to be able to succeed the program through optimal performance. One of Nawacita's programs that wants to realize economic independence makes SOEs is expected to be able to succeed the program through optimal performance. However, the fact that the three-years running program of "Nawacita" showed by the data that the performance of SOEs has not been able to succeed the "Nawacita" program (Hidayat, 2015). This phenomenon is supported by financial performance data of "Pre-Nawacita" (between 2012-2014), it shows that the improvement of performance is higher than the three-years program of "Nawacita", (between 2015-2017). It can show in the table of financial performance of SOEs for the period 2012-2017, below:

FIGURE 1: The Profit of SOEs
Source: Ministry of SOEs



The improvement of company performance needs to be supported by applying GCG so it can increase the transparency (Dzingai & Fakoya, 2017; Putri, 2012). The implementation of CG in SOEs in Indonesia is also strengthened on Ministerial Regulation of SOE number PER-01/MBU/2011 which explains that the good implementation of GCG can improve the efficiency, effectiveness and performance of SOEs. If the implementation of GCG's principles: transparency, accountability, responsibility, independently, and fairness are properly supervised and controlled by the government, it is expected will have impact on the performance of SOEs. This is to support government program called "Nawacita".

The previous research about CG and financial performance has been conducted by some other researchers such as: Dittmar et al., 2003; Nam & Nam, 2004; Azeem et al. 2013; Rashid & Islam, 2013 which shows that CG has an important role in influencing company performance in financial markets. For the case in Indonesia, a research conducted by Dewata, Hadi, and Jauhari (2016) stated that the performance of SOEs in Indonesia which is related to CG mechanisms showing the results of the directors' size and Audit Committee give positive and significant impact on the financial performance of SOEs. Meanwhile, the proportion of independent commissioners, the government ownerships have negative and significant impact on the financial performance of SOEs. Furthermore, the research conducted by Nofitasari, Kertahadi, & Yaningwati (2016) shows that the Independent Board of Commissioners and Audit Committee significantly give negative affect on the financial performance of SOEs.

A research conducted by Wahyudin & Solikhah (2017) shows that the result of CG measured by Corporate Governance Perception Index (CGPI) has positive effects on the financial performance of SOEs in Indonesia and congruent with Ararat, Black & Yurtoglu research (2017).) Widyawati's (2014) indeed shows that CG measured by CGPI does not affect the financial performance of SOEs in Indonesia. Based on the result of some previous researches that show mixed results, makes our research is still relevant to be examined related to the government program issue, "Nawacita", which is one of the efforts to improve the performance of SOEs.

This study examines the influence of CG assessment with CG index compiled by Nurharjanto 2016 and the element of CG index on SOEs performance in Indonesia which is strengthened by Minister of State-Owned Enterprise regulation Number PER-01/MBU/2011. This study uses CG index for SOEs which is compiled by Nurharjanto 2016 and has been tested by some practitioners and academicians who are experts in their field. Therefore, it is proper to be applied in SOEs. The issues in this study becomes interesting, because it is related with the "Nawacita" program. The fluctuations of the SOEs' performance on the Nawacita program have shown a decreasing performance trend over the last three years compared to Pre-Nawacita. Therefore, it is said that SOEs performance has not been able to succeed the government's "Nawacita" program. And also, this study analyzed the effect of Nawacita Program on financial performance of SOEs supported by paired sample t-test. This phenomenon is interesting to investigate, whether or not the CG's role and Nawacita Program affected on the financial performance of SOEs in Indonesia.

This study differs from previous researches, in the following ways: (1) CG assessment uses the Nurharjanto 2016's CG index and its effect on the financial performance of SOEs measured by Return On Equity/ROE (2) the using of elements of CG index (Board of Commissioners, Audit Committee, Ownership Structure, Risk Management and Nomination and Remuneration Committee/RMNR Committee) measured by weighted of CG index by Nurharjanto 2016 for SOEs. (3) to know the effect of Nawacita Program on financial performance of SOEs. In the end, it is expected to have pictures about CG index and Nawacita Program on SOEs performance.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Agency Theory

The agency theory is the foundation theory of the company's business practice. This theory explains between principal (capital owner) and agent (company manager) in the form of employment contract. Jensen & Meckling (1976) states that agency relationship is a relationship between agent and principal. The agency relationship occurs when the principal delegates decision-making authority to the agent to act on the behalf of the principal. The principal has an interest in the rate of return from invested money in the company. On the other side, the agents have personal interest to improve their welfare and financial life.

Fama & Jensen (1983) explains more that an organization is a form of contractual relationship of both parties in written and not written form. According to the definition of Jensen and Meckling (1976) and Fama and Jensen (1983), it can be concluded that agency relation is a contractual relationship of two parties, principals and agents.

The agency theory assumes that all individuals act for their own behalf (Bathula, 2008), and this leads to the agency problems occur. One of the problems existed is caused by the fact that the principals do not have the capacity to ensure that agents work for the principal's interests. The principals can't ensure that agents contribute to the actual results of the company. On the other hand, the agents are more familiar with daily tasks that makes them have more information compared to the principals. This situation is called information asymmetry. It is a condition in which one party has more information than the others. This condition will lead to moral hazard and wrong policies for a new manager since it will harm the company's market and economic condition (Veronica & Bachtiar, 2005).

The difference of interest between the principal and the agent may cause the agent to misrepresent the information to the principal. The managers have an incentive to mislead shareholders by providing financial information that does not reflect the actual financial performance (Boediono, 2005). One of the internal controls to prevent information asymmetry is by applying good corporate governance. Habib & Jiang (2015) states that agency theory encourages the emergence of corporate governance mechanisms that can significantly improve financial performance. The agency theory that considers the importance of the governance role to reduce agency conflicts between principals and agents has become the theoretical basic for corporate governance research (Jensen and Meckling 1976).

Nawacita

Nawacita is a medium-term government (5 years) agenda that aims to build an advanced, sovereign, independent and cultured nation (Ministry of National

Development Planning, 2014). There are nine priority agendas in realizing noble ideals of building the nation, namely:

1) Bring back the State to protect all nations and provide security to all citizens.
2) Making the government always be done by building clean, effective, democratic and trusted governance.
3) Building Indonesia from regions with regions and villages in the spirit of a unitary state.
4) Strengthening the body in implementing reform and law enforcement that is free of corruption, dignity and trustworthiness.
5) Improve the quality of life of Indonesian people.
6) Increasing productivity and competitiveness in international markets. The Indonesian people can advance and rise with other Asian nations.
7) Realizing economic independence by developing the strategic sectors of the domestic economy.
8) Revolutionizing the nation's character.
9) Strengthen the diversity and details of Indonesian social restoration

So this study discusses the seventh Nawacita: "realizing economic independence by developing the strategic sectors of the domestic economy". To realize the seventh of Nawacita Program, the government makes effort to increase the financial performance of SOEs through the injection of Government capital funds and effectivity of CG mechanism. SOEs which is called the spearhead in supporting the goals of Nawacita in realizing independence that is prosperous in terms of:

a. citizen's agribusiness-based food sovereignty
b. national energy-based power
c. restoration of Indonesia's maritime economy

Indonesian Government Regulation Number 72-year 2016 which states that the goal of government capital for SOEs is in order to improve and support government programs. The capital government that gives to SOEs is to strengthen the capital structure of SOEs that can carry out activities well which ultimately results in optimal profit (Kurniawati, 2017). Fluctuations in the performance of SOEs after three years of running Nawacita are taken into consideration because additional funds or Government Capital makes SOEs has optimally performance to increase in contributing for national economy in order to improve citizen welfare.

HYPOTHESES DEVELOPMENT

The Influence of Corporate Governance Assessment with CG Index on Corporate Financial Performance of SOEs

The effect of CG implementation on financial performance can be measured by using CG indexes such as research conducted by some previous researchers (Klapper and Love, 2002; Brown & Caylor, 2004). The implementation of GCG has an important and strategic role in maintaining the credibility of the company's business processes and company controlling. Thus, by performing functional operations of GCG and corporate advisers, financial performance can be increased. The application of corporate GCGs can create systems efficiently and effectively to guide, control and oversee all resources. GCG is assumed to maintain various interests that can provide benefits for its company.

The companies with higher CG Index scores are the companies that have been managed with transparency, accountability, responsibility, independency and fairness. Therefore, it will have an impact on the output of the company's good performance. A research conducted by Gompers et al (2003), using the CG index found that firms with stronger stakeholder rights tend to have higher returns. Sheikh et al (2013) also found out that a positive relationship between board size and firm performance. These results are similar to the previous studies conducted by Jackling and Johl (2009), Ehikioya (2009) and Abor and Biekpe (2007). Meanwhile, in New Zealand, a study conducted by Reddy et al. (2010) found out that compliance with New Zealand Securities Commission (NZSC) requirements has fixed the company's financial performance. Wahyudin's research (2017) shows that the CG index has a positive and significant influence on the performance of SOEs in Indonesia. From all the explanation above, therefore the first hypothesis is proposed as follow:

H1: CG assessment with CG Index has a positive effect on financial performance of SOEs.

Board of Commissioners Influence on Corporate Financial Performance of SOEs. The improvement financial performance after the crisis can be encouraged by applying CG strategies consistently and sustainability (Tjondro and Wilopo, 2011). A prior research about the characteristics of the board of commissioners on the performance, such as: Dalton, Daily Johnson, and Ellstrand (1999) and Beinerr et al (2004) concluded that the characteristics of the board of commissioners and financial performance showed a strong relationship. The research also mentioned that the bigger the size of the board of commissioners the better the impact on financial performance.

Our study examines the effect among the board of commissioners' characteristics in the items contained in the CG index and the weighted items such as: the number of boards of commissioners, the proportion of independent commissioners, the average age of the women commissioners, the education level of the commissioners, the average experience of the board of commissioners, ethnic backgrounds of members of commissioners, the work experience of commissioners, and membership period of commissioners. Each item contained in the characteristics of the board of commissioners will be weighted according to the CG index. The tasks of the board of commissioners are to make sure that CG has been implemented well in the company and to monitor the management policy in accordance with the prevailing rules. These acts are expected to improve the company's financial performance.

H2a: The Board of Commissioners has a positive effect on Financial Performance of SOEs.

2b) The Influence of Audit Committee on Corporate Financial Performance of SOEs. The Board of Commissioners in doing its duties is assisted by the Audit Committee with a minimum of 3 members as stated in SOEs Minister Regulation number Per-05/MBU/2006 about Audit Committee for SOEs. The Audit Committee has position to help in transactions recording and identifying potential misleading of financial reporting. The Audit Committee is expected to perform its duties effectively in assisting the monitoring tasks undertaken by the commissioners. The research done by Anggarini and Utama (2013) shows there is a positive influence in Audit Committee on financial performance. Our study examines the effect of the Audit Committee obtained in the elements of the CG index by giving weight to each item in it. The existence of an Audit Committee in a company with the function of improving the quality of financial statements and affecting the financial performance of the company.

H2b: The Audit Committee has a positive effect on Corporate Financial Performance of SOEs.

2c) The Effect of Ownership Structure on Corporate Financial Performance of SOEs. One of the characteristics of the modern economy is its ownership is separated. This is in accordance with agency theory in which the owner hands over the management of the company to the agent in order to get maximum profit with efficient cost. The successful implementation of corporate governance is inseparable from the company's ownership structure (Wicaksono, 2000). The agency problem occurs in the company can be solved by ownership structure. It is because when the ownership structure is good, then a decent performance is also gained (Andriana & Panggabean, 2017). Based on the explanation above, the hypothesis would be:

H2c: The ownership structure positively affects the Corporate Financial Performance of SOEs.

2d) The Effect of Risk Management and Nomination & Remuneration Committee (RMNR Committee) on Corporate Financial Performance of SOEs. The Board of Commissioners sets up committees as part of the implementation of GCG, among others: Risk Management Committee and Nomination & Remuneration Committee (RMNR Committee) in order to assist the duties and responsibilities of the board of commissioners to go effectively. A previous research conducted by Hutami (2014) found out that the Risk Management Committee had a positive effect on financial performance. Putri et al (2015) states that the nomination & remuneration committee conducts an assessment objectively towards the potential candidate of stakeholders so that it can reflect

the contribution to the company and affect the performance of the company. According to this point, the hypothesis is:
H2d: The Risk Management Committee and Nomination & Remuneration Committee (RMNR Committee) have a positive effect on Financial Performance of SOEs.

3) The Effect of Nawacita on Financial Performance of SOEs
The issue in this study is related to a government program known as "Nawacita" which is the seventh program is realizing economic independence by moving the strategic sectors of the domestic economy. SOEs which is predicted to be the spearhead in realizing the program is expected to perform optimally by exploring domestic potential so as to provide maximum contribution to the national economy for the citizen welfare. Related to this issue is the importance of implementing GCG in SOEs, so that SOEs can succeed in the "Nawacita" program.

Government Regulation Number 72 of 2016 states that Government Capital aimed at SOEs is in order to increase value and optimize the role of SOEs as national development agents in supporting and accelerating Government programs. Government support for SOEs for the success of the "Nawacita" program. This shows the seriousness of the government to spur SOEs to perform optimally in order to achieve optimal goals. Basically, the main purpose of providing Government Capital is as a form of strengthening and restructuring of SOEs, so that funds will be able to succeed if the SOEs which are achieved that funds can grow into healthy and highly competitive SOEs. These SOEs are expected to be able to provide an optimal contribution in the economic system and generate profit in order to improve the citizen welfare.

Previous research regarding additional equity participation in financial performance was carried out by Sudarno (2011) which stated that the investment in capital used for investment would improve financial performance. Regional Government Capital Investment in PT Bank North Sulawesi (BUMD) conducted by Setiabudhi (2014) shows that additional Local Government Investment increases ROA and ROE from PT Bank North Sulawesi. So the third hypothesis of this study is:
H3: The Government's Nawacita Program has a positive and significant effect of the financial performance of SOEs.

RESEARCH DESIGN

This study analyzes SOEs which becomes the government's economic priorities such as the food, fishery and marine, energy, industry, tourism sectors which includes in the "Nawacita" program. The sample consists of 40 SOEs including government economic sectors from 2014 to 2017 with final sample of 240 observations. The data used in this study is secondary data namely annual reports of SOEs which is analyzed with the CG Index by Nurharjanto 2016 for SOEs.

a. Variables

1) Independent Variables. The variables used in this research are CG assessment and the element of CG index. Meanwhile, the indicator used in this research is Nurharjanto Index 2016 for SOEs. It is the Nurharjanto 2016 research program in the evaluation of SOEs that has been tested and criticized by academicians and practitioners. Thus, it is suitable to be applied to SOEs. Nawacita was measured by dummy variables, if "0" for Pre-Nawacita (2012-2014) and "1" for Nawacita (2015-2017). And also, the result of panel data regression will be supported by paired sample t-test financial performance between Pre-Nawacita dan Nawacita.

2) Dependent Variable. Dependent variable used in this study is financial performance measured by Return On Equity (ROE), with the formula ROE = Net profit after tax / Total Equity.

3) Control Variables. Control variables are used in this study for obtaining better research and analysis models. This study uses the control variables of size, age, and leverage in accordance with the research (Hassan and Halbouni, 2013, Seikh et al 2013).

DATA ANALYSIS TECHNIQUE

The collected data will be presented using descriptive statistics including the mean, median, standard deviation, maximum, and minimum in the table. Furthermore, in order to test the data quality classical assumption test was used, include normality, autocorrelation, multicollinearity, and heteroscedasticity were conducted. The data were analyzed using panel data regression by E-views software. In the panel data regression, firstly, we estimated the model using common effect, fixed effect, and random effect model. Next, in order to choose the best model, Chow test and Hausman test were used. In order to examine CG on financial performance, we applied the following two models:

$$\text{Model 1: } ROE = \propto + \beta_1 ASS + \beta_2 NAWA + \beta_3 SIZE + \beta_4 AGE + \beta_5 LEV + \varepsilon$$

$$\text{Model 2: } ROE = \propto + \beta_1 BoC + \beta_2 AC + \beta_3 OWN + \beta_4 RMNR + \beta_5 SIZE + \beta_6 AGE + \beta_7 LEV + \varepsilon$$

RESULTS

Descriptive statistics show the mean, median, maximum, minimum, deviation standard presented in Table I. The higher ROE value indicates that the company is able to utilize a number of its equity to generate profits. The mean ROE was 0.071 or 7.1% with a median of 0.090 or 9%, indicating that the average ROE

TABLE 1: Descriptive Statistical Analysis

Variable	N	Min	Max	Mean	Median	Std. Dev
ASS	160	0.364376	0.944100	0.607650	0.607984	0.1027871
SIZE	160	3.224062	32.32896	23.75799	24.26262	6.178294
AGE	160	7.000000	67.00000	40.58750	44.00000	16.79450
LEV	160	0.000350	0.896576	0.512430	0.541692	0.232794
ROE	160	-1.657737	0.930000	0.071025	0.09000	0.236565

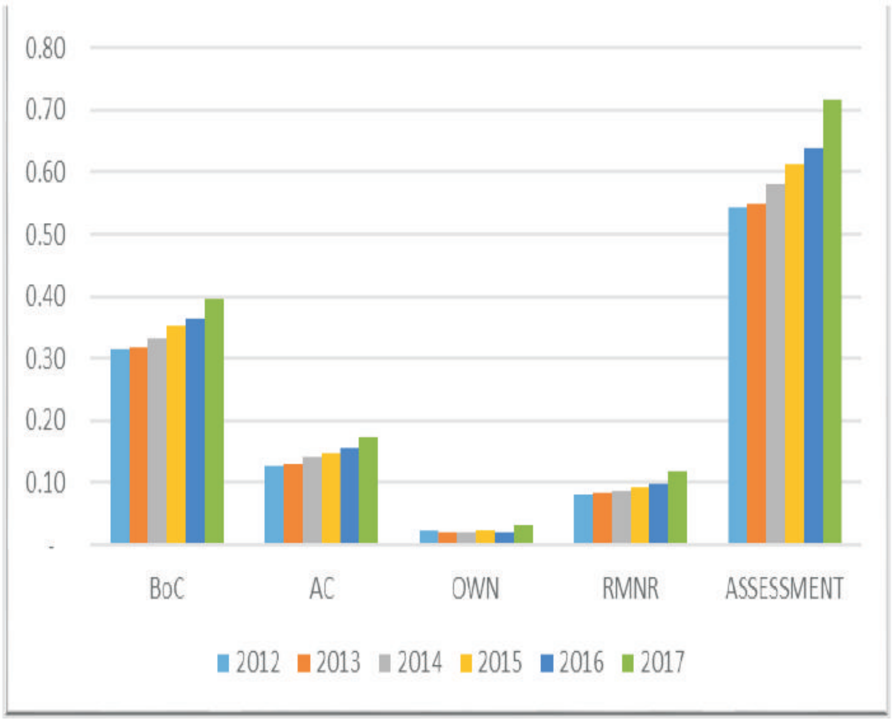
TABLE 2: CG Disclosure Index

Item of CG Disclosure Index	2012	2013	2014	2015	2016	2017
Board of Commissioners	31%	32.39%	33.70%	35.72%	37.09%	39,53%
Audit Committee	13%	12.85%	14.01%	14.66%	15.50%	17,43%
Ownership	2%	2.00%	2.17%	2.18%	2.00%	3,2%
RMNR Committee	3,2%	8.23%	8.64%	9.23%	9.81%	11,95%
CG Assessment	71,71%	55.55%	58.59%	61.86%	64.47%	71,71%

was still low because it was below 10%, but still showed positive performance. The maximum ROE value is 0.93 or 93% and the minimum value shows -1.6 or -1.6% which means that the SOE is experiencing losses. The ROE figure for SOEs in Indonesia experiences a high variation in ROE between SOEs by looking at the standard deviation of 0.23 or 23%. The description of CG's assessment of SOE companies in this study shows a minimum value of 0.36, a maximum value of 0.94. Mean shows the number 0.60, meaning that the average CG assessment with the Nurharjanto 2016 index is in the category "enough (60-70)" with a fairly high variation seen from the deviation standard value of 0.12. It can be concluded that the greater the value of CG assessment with the CG index in this study then represents the characteristics of the main elements of generally accepted CG principles, namely transparency, accountability, responsibility, independency, and fairness. Table 4.2 shows that each element of CG index disclosures has increased, but not for elements of Company Ownership that experience disclosure index fluctuations. Broadly speaking, elements of CG index disclosures have increased every year, especially elements of the Board of Commissioners related to the central function that is run as a company supervisor and ensure that Management has implemented CGC in the company. This also indicates that every year SOEs are increasingly aware of the importance of monitoring and evaluating GCG implementation.

To test the quality of the data, a classic assumption test was performed with the results showing that the data had passed the autocorrelation test, multicollinearity test, and heteroscedasticity test, so it was feasible to continue panel data regression analysis.

FIGURE 2: The Element of CG Index Disclosure



HYPOTHESES RESULTS

TABLE 3: Output of Model 1

Variable	Coefficient	Std. Error	t-Statistic	Prob.
ASS	0.000705	0.082954	0.008504	0.0032
NAWA	-0.047416	0.008103	-5.851509	0.0000
SIZE	0.004507	0.001501	3.001942	0.0030
AGE	0.104185	0.078560	1.326178	0.1864
LEV	-4.43E-14	3.97E-14	-1.115902	0.2659
C	-4.284487	3.185161	-1.345140	0.1802
R-squared	0.661138			
Adjusted R-squared	0.582249			
F-statistic	8.380656			
Prob(F-statistic)	0.000000			
Durbin-Watson stat	1.902819			

TABLE 3: Output of Model 2

Variable	Coefficient	Std. Error	t-Statistic	Prob.
DK	0.443490	0.173551	2.555394	0.0115
KA	0.731372	0.238659	3.064511	0.0025
OWN	0.256111	0.700481	0.365621	0.7151
MRNR	0.420464	0.341964	1.229559	0.0205
SIZE	0.004262	0.001304	3.268680	0.0013
AGE	0.189071	0.159800	1.183168	0.2383
LEV	-0.122241	0.034316	-3.562258	0.0005
C	-7.737302	6.589117	-1.174255	0.2419
R-squared	0.693835			
Adjusted R-squared	0.611608			
F-statistic	8.438034			
Prob(F-statistic)	0.000000			
Durbin-Watson stat	2.020447			

TABLE 4: Paired Sample T-Test

Financial Performance		n	Mean
ROE	Pre	114	0.1162
	Nawa	114	0.0459
ROA	Pre	114	0.0560
	Nawa	114	0.0177
NPM	Pre	116	0.1210
	Nawa	116	0.0916

Based on Table 4 indicates that the financial performance of SOEs have different between Pre-Nawacita and Nawacita, but it needs paired sample t-test, and here the result:

TABLE 5: Paired Sample t-test

Financial Performance	Paired Differences		Significance t (2-tailed)
	Mean	Std.dev	
ROE (pra-nawa)	0.07025	0.26869	0.006

Based on table 5 shows that financial performance of SOEs has significant value <0,05, and it means there is differences between Pre-Nawacita and Nawacita. The average of financial performance shows that financial performance of Pre-Nawacita is higher than Nawacita. This condition indicates that the Nawacita program has not been able to encourage the improvement of the financial performance of SOEs in Indonesia by looking at the average Pre-Nawacita financial performance is higher than Nawacita.

DISCUSSION

Model 1 and 2 in table 2 and table 3 show panel data regression analysis using the least squares panel method with fixed effect estimation model after Chow and Hausman test. Model 1, adjusted R2 value shows 58%, this shows that the variables CG assessment, Nawacita, Size, Age, and Leverage explain 58% of the dependent variable, namely financial performance as measured by ROE, the remaining 52% is explained by other variables outside this research model. The F value can be seen from the Prob (F-statistic) value significant at the 0.0000 level <0.05 which indicates that the research model is fit.

Financial performance as measured by the size of ROE profitability is in line with the research of Hasan and Halbouni (2013). Our results show that CG assessment with the CG index influences financial performance positively and significantly so that the first hypothesis is accepted. This result is in accordance with Wahyudin and Solikhah (2017) who found that CG affects corporate performance. Research by Wahyudin and Solikhah (2017) measures CG with Corporate Governance Perception Index (CGPI) issued by the Indonesian Institute of Corporate Governance (IICG). Another research, Febriani (2016) found that the implementation of GCG as measured by CG principles, namely: transparency, accountability, responsiveness, independence, and fairness had a positive effect on the performance of PT Pos Indonesia. The findings of previous studies also support the findings of our study including the research of Jackiling and Johl (2009), Reddy et al (2010), Siagian et al (2013), Suhadak et al (2016).

This shows that BUMN with a high CG index score will have a positive impact on financial performance. This finding is reinforced by Jensen and Meckling's statement that companies with good governance may have efficient operational performance that will have an impact on financial performance. The results of the research can be taken into consideration by the regulator to evaluate the governance rating of SOEs so that SOEs with low assessment scores with sufficient or bad categories will be given a warning to improve corporate governance because it has an impact on financial performance.

Model 2 shows the adjusted R2 value of 61%, this means that the independent variables of the CG index elements are: Board of Commissioners, Audit Committee, Company Ownership, and the MRNR Committee explain 61% of the dependent variable, which is financial performance as measured by ROE, the remaining 39% is explained other variables outside the research model. The F value can be seen from the Prob (F-statistic) value significant at the 0.0000 level which indicates that the research model is fit.

Our results show that hypothesis 2a is accepted that the board of directors has a positive and significant effect on financial performance. The results of this study support the research of Zabri et al (2015) and Abubakar (2016) which show that the Board of Commissioners as measured by the characteristics of the Board of Commissioners has a positive and significant effect on financial performance. Other studies namely Amran and Ahmad (2011), Tachiwou (2016) through the CG mechanism, the board of commissioners has a significant effect on the company's financial performance. This is inseparable from the function of the Board of Commissioners who supervises and advises the Board of Directors with regard to the company's operations so that evaluations can be made to improve performance.

Hypothesis 2b is accepted that the Audit Committee does not affect the financial performance of SOEs. Muntiah (2013) and Andriana, & Panggabean (2017) which states that the more the Audit Committee members, the financial performance will be resolved well so that performance will increase. This is because the duties and functions of the Audit Committee focus on compliance with financial reporting standards, so that the Audit Committee is placed as a supervisory mechanism between management and external parties or the possibility of an agency, and is considered to improve the performance of the company through such supervision. The existence of the Audit Committee also supports the principle of responsiveness in the implementation of corporate governance within the company so as to have an impact on financial performance, thereby increasing the credibility of investors and shareholders.

Hypothesis 2c is not accepted, namely the ownership structure has no effect on financial performance, the ownership structure referred to in this study is managerial ownership by the Board of Commissioners and public ownership. This finding is not in line with Natalylova's (2013) research which states that public ownership structures play an important role in improving corporate governance so that supervision is more effective. Research that is in line with the findings of the author include Arifusyah's research (2016) which states that public ownership does not affect the company's financial performance because public ownership is still below 50%. Furthermore, Puspito (2011), Darwis (2012) and Bayrakdaroglu (2012) research stated that managerial ownership does not affect the company's financial performance. The results of this finding are because in the context of ownership both public and managerial in SOEs is limited by law, namely Law Number 19 of 2003 concerning SOEs that the ownership of SOEs by the government is entirely or the ownership of government shares is at least 51%. The data shows that share ownership by the public and the Board of Commissioners in SOEs is minimal, so that the performance of the Board of Commissioners in monitoring the system is not optimal and the public as a minority shareholder has not been able to influence decision making so that it does not affect the company's financial performance.

Hypothesis 2d was accepted, the risk management committee and the nomination & remuneration committee influenced the financial performance of BUMN. This result is in line with Murwaningsari (2009) research which states that the Nomination & Remuneration Committee influences the performance of the company. Another study is Widyani's (2011) research which states that the Risk Management Monitoring Committee and the Nomination & Remuneration Committee (MRNR Committee) affect the company's financial performance. The findings are confirmed that the Nomination and Remuneration Committee's Roles and duties according to the KNKG GCG are to assist the Board of Commissioners in determining the selection criteria for prospective members of the Board of Directors and the Board of Directors along with their remuneration systems, helping Board of Commissioners prepare prospective members of the Board of Directors and Directors and propose the amount of remuneration. Separately, the task of the Nomination Committee is to identify, evaluate, and nominate new directors to the board, and also facilitate the selection of new directors by shareholders. While the Remuneration Committee is responsible for determining the amount of compensation or salary or bonuses for directors and commissioners. The recommendations of the MRNR Committee on improving the quality of human resources and self-assessment of management will improve financial performance.

The Risk Management Committee is formed to ensure the application of risk management in the company to reduce and avoid risky things that can endanger the sustainability or performance of the company. The application of Enterprise Risk Management / ERM is important because the business cycle that is full of uncertainty and dynamic requires the company to be more ready and flexible in anticipating any changes both positive and negative changes in order to achieve the company's goals. Risk management in the company is closely linked to Good Corporate Governance (GCG) practices in companies and this GCG implementation will improve the company's performance in a sustainable manner through a healthy long-term growth pattern. Data shows that BUMNs that have Committees under the Board of Commissioners such as the Risk Management Monitoring Committee and the Nomination & Remuneration Committee / MRNR Committee are still very few so that the dual jobs are still charged to the Board of Commissioners. This is because the formation of the Committee is still voluntary rather than regulatory. In accordance with the provisions of the Minister of SOEs Regulation Number: PER-12/MBU/2012 concerning Supporting Organizations of the Board of Commissioners as Supervisory Board, the number of committees formed by the Board of Commissioners consists of 2 (two) Committees, namely the Audit Committee and Other committees if needed.

The company has not seen the need for the establishment of a Nomination & Remuneration Committee and is still a dual function by the Board of Commissioners, even though the regulation was made to help the Board of

Commissioners function so that supervision is effective in order to improve company performance. The company considers that the establishment of the MRNR Committee will add to the greater costs so that it will burden the company. SOEs in Indonesia should increase awareness of the importance of the existence of the Committee in its corporate structure because it will affect the company's financial performance.

The third hypothesis was not accepted, the results showed that Nawacita had a negative and significant influence on the financial performance of SOEs. Our findings are in accordance with research conducted by Sudarno (2010) and Kelbulan (2014) which states that Local Government Equity Participation has a negative and significant effect on the financial performance of Regionally-Owned Enterprises in Yogyakarta Province. These findings indicate that the efforts made by the government include the addition of capita injections to SOEs through the "Nawacita" program, which has not been matched by an increase in the financial performance of SOEs for the three years running the "Nawacita" program, due to the fact that performance has decreased. The fact of the decline in the financial performance of SOEs during the Nawacita program was supported by data published by the Ministry of SOEs which showed a decrease in contribution to the country. This is also supported by the results of different tests of Pre-Nawacita and Nawacita performance which show that there is a difference in performance by showing the average Pre-Nawacita performance is higher than Nawacita. The decline of performance is closely related to the task of SOEs as well as carrying out the duty of the state in public service by carrying out the mission of Public Services Obligation (PSO). The assignment sometimes makes SOEs difficult to move and difficulties in improving financial performance. The decline in the performance of SOEs is influenced by internal and external factors. External factors such as uncontrollable ones and weak competitiveness. This weakness comes from the slow anticipation of the business due to the changing dynamics of the environment, the inadequate quality of human resources and leaders, and the possibility of too long bureaucracy in decision making, (Pranoto 2017). However, the internal factors of BUMN that experience losses due to management's inability to make profits must be immediately solved.

This is better for BUMNs to pay attention to the implementation of GCG in SOEs because it can affect the company's financial performance. The role of the Board of Commissioners which refers to the supervisory duties, and provides advice to the Board of Directors and ensures that GCG has been implemented in the company is very important to support the performance of SOEs. BUMN financial performance can be supported through the implementation of GCG within the company and the spirit of improved management by all SOE organs (principals, Board of Commissioners, Directors and management) so as to succeed the "Nawacita" program and improve citizen welfare.

The control variables in this study indicate that the size of the company has a positive and significant effect on financial performance. This is in line with Kinanti's (2017) research that the larger companies show better financial performance. Age control variables and leverage do not affect the financial performance of SOEs.

CONCLUSION

This study examines the effect of CG assessment with CG index, and CG index elements, as well as Nawacita on the financial performance of SOEs. The results of this study indicate that what influences the financial performance of SOEs is the CG assessment variable, the Board of Commissioners, and the Audit Committee, and the MRNR Committee, while the variables of Company Ownership do not affect the financial performance of SOEs. This result can be used as input for regulators in this case the Ministry of SOEs to appoint an assessment body for the implementation of GCG in SOEs. This is because the implementation of GCG affects the financial performance of SOEs so that it is better for SOEs to be assessed in terms of CG assessment, if the score of implementing GCG in the category of "sufficient" or even "not good" the government can give a warning to immediately improve the governance of SOEs. SOEs are expected to implement GCG not only in compliance with applicable regulations but also the importance of implementing GCG to improve performance. Furthermore, SOEs can make GCG as part of the company's work culture. The results showed that the Nawacita program had a significant negative effect on the financial performance of BUMN and supported by the results of different performance tests which showed that there was a higher difference in Pre-Nawacita performance than Nawacita. This indicates that additional injections of Government Capital to SOEs through the "Nawacita" program have not been able to provide optimal returns for the citizen welfaree. The government should review BUMNs that receive additional funds should be SOEs that have good governance so that contributions to the country are optimal.

This study has limitations, that is, the SOEs sample only focuses on SOEs which include the government's Nawacita program and the index limitations used in this study. Subsequent research can add to the sample, for example by using all SOEs in Indonesia with the latest index from the Ministry of SOEs, as well as conducting an overall analysis after the Nawacita program ends in a five-year period, and also use another measurement of Nawacita to make the results stronger and more attractive.

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