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Government intervention and investment efficiency in Indonesian companies

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ABSTRACT: This study aims to investigate government intervention, an action that can cause inefficiency in companies' investment. The population in this study were 41 mining companies listed on the Indonesia Stock Exchange in 2015-2018, while the samples sorted by random sampling were 10 companies. This research investigates two matters about intervention. First, it compares the efficiency of investment between SOEs and non-SOEs. Furthermore, it investigates the intervention of whether the company director or commissioner is politically connected to the government. This study used investment theory, agency theory, information asymmetry. It is assumed that government intervention has more influence on the efficiency of State-Owned Enterprise (SOE) companies investment than non-SOEs. Also, companies whose directors or commissioners are politically connected with the government have less efficient investment activities.

1 INTRODUCTION

Government intervention is interference by the government in system, provisions, developments to maintain the country. The right government intervention can increase the effectiveness of the economy. In contrast, improper government intervention will worsen company performance. This research examines government intervention. First, it investigates whether government intervention affects investment efficiency in SOEs and non-SOEs companies. An obstacle faced by SOEs is investment intervention. Management pattern still has various weaknesses in the direction of Good Corporate Governance. The image of SOEs is poor since these companies are considered corrupt, a source of extortion by bureaucrats, not beneficial except by various subsidies, concessions, and other negative images. Interventions against SOEs are carried out by authorities and those closest to the authorities who are highly influential in determining who can be directors in SOEs. The intervention in the change of management in state-owned companies is very high. Throughout the history of SOEs, the most visible intervention was directors and commissioners' appointments. Simanungkalit (2015) conducted research regarding institutional ownership, managerial ownership, and an independent board of commissioners on investment. The study found variables related to investment efficiency. The higher the percentage of an independent board of commissioners, the more commissioners strive for independence. Thus, this action will have an impact on the increase of company efficiency.

Furthermore, this study examines whether government intervention in companies or the directors or commissioners is politically connected to create inefficient investment activities. One form of political connection is the relationship of the board of commissioners or directors, who have and or hold concurrent positions as politicians, with political parties, government officials, military officials, former government officials, or former military officials. Government intervention forces SOEs to deviate their duties and functions. As a government tool, SOEs only conduct activities that the government approves and carry out goals desired by the government. According to Lin et al. (1998), government intervention has the potential to cause SOEs to be inefficient in investing and carrying out their activities. Because the appointment of top executive positions, such as directors and commissioners, is carried out directly by the government, SOEs that are politically connected are highly vulnerable to intervention. Politically connected SOE's activities generally do not aim to maximize profits or corporate value. However, these politically connected SOEs become the government's puppet and conducts any activities based on the government's preference. Improper government intervention will worsen company performance. Government intervention in SOEs will have an impact on their efficiency. Also, the appointment of too many directors or commissioners can cause inefficiencies in SOE companies.

On the other hand, non-SOEs companies will seek political connections if they bring benefits to these companies, for example, if the political connection can increase company profits. In Indonesia, political connections are needed for non-SOEs to launch their businesses. Observing from many boards of directors and commissioners who are politically connected with the government background, this connection is highly important for these companies. The political connection is considered significant for non-SOE companies company because if related to government political connections, companies' activities can run well. Also, this political connection can make it easier for companies to obtain loans and access. In non-SOE mining companies, there are political elites with political interests in the coal mining business. The Coordinating Minister for Maritime Affairs, Luhut Binsar Pandjaitan, who oversees the mining and energy sector, is a shareholder of PT, Toba Bara Sejahtra Tbk. Various studies have been conducted to compare the performance between SOEs and non-SOEs. Those studies always concluded that the private sector is more efficient in carrying out business activities, while SOEs tend to be inefficient (Ruru, 1996, p. 40).

2 RESEARCH ISSUE

Direct intervention in company business activities is the government's way that can influence the company's financial strategy (Chen et al., 2011). Faccio (2006) conducted research regarding the criteria for an approved company in relation to approved political relations by the company. The approval holder is their relatives who have been or are in the process of being governed as a high-ranking state official, member of the board, or an official of any ruling party. In Indonesia, the term politically connected company is not new. According to the website of Pelita (www.pelita.or.id), nearly 22 percent of publicly listed companies (Tbk) in Indonesia have political channels.

The political connection is the establishment of a relationship between certain parties with other parties who have an interest in politics; thus, it can benefit both parties (Sugiyarti 2017). According to Agrawal and Knoeber (1997, in Suhartono and Sany 2015), politically connected companies will be able to enjoy higher revenues and greater productivity because politics is the most important economic element, particularly in terms of company profitability. Empirical evidence shows that politically connected companies have greater access to banking facilities, such as obtaining loans (Sapienza, 2004; Faccio et al., 2006). Shleifer and Vishny (1994, 1998) found that government-controlled companies cause companies to be less efficient and effective in their management.

The questions in this study are as follows. Do government interventions affect investment efficiency in SOEs and non-SOEs companies? Do politically connected companies influence investment efficiency on SOEs and non-SOEs companies?

3 LITERATURE REVIEW

Agency theory explains the relationship between principals (shareholders) and agents (management). It also describes the relationship between principals and agents. The principal is the party that gives authority and responsibility to make decisions to the agent (management). Principals believe that agents will make decisions that benefit them and can manage the company and bring benefits for them (Jensen & Meckling, 1976).

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