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Capital Investment, Asset Growth, Liqudity, And State Ownership On The Financial Performance Of State-Owned Enterprises

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ABSTRACT

Poor financial performance in some State-Owned Enterprises (SOEs) in the last decade have been at public's concern. This study aims at analyzing the influence of capital contribution, asset growth, liqudity, and state ownership on financial performance of state-owned enterprises. The subject in this study is SOEs listed in the Indonesian Stock Exchange during 2015-2018. Eigthy samples were collected and analysed by using multiple regression analysis. The results of the statistical test shows that state ownership measured by percentage of shares owned by the government has a negative and significant effect on financial performance state-owned. Meanwhile other variables such as capital contribution, asset growth and liqudity have no effect on financial performance of state-owned enterprises. This indicates that SOEs with high government shares tend to have more external intervention than those with less Government shares. For the SOEs with high government shares, there is a strong need to be managed with more professional to have better financial performance.

KEYWORDS: Asset Growth, Equity capital, Financial Performance, Liquidity, State-Owned Enterprises, State Ownership

INTRODUCTION

State-owned Enterprises/*Ba&* *Usaha Milik Negara* (BUMN) is a corporation or company established by the government whose capital is entirely or partly derived from the state through State Capital investment / *Penyertaan Modal Negara* (PMN). In 2020 there were 140 companies directly under the Ministry of SOEs (Nursyamsu, 2020). From those numbers, there are 20 SOEs listed in Indonesia Stock Capital / *Bursa Efek Indonesia* (BEI) (Akbar, 2019). State capital investment is regulated in Government Regulation of the Republic of Indonesia Number 72 of 2016, in which the composition of state ownership of SOEs is at least 51%. According to Nurjanah (2018), SOEs can contribute to the State Budget through dividends and tax payments. If the profit of the SOEs is higher, then the higher the tax that must be deposited to contribute to the state budget.

Some SOEs listed in IDX, such as Krakatau Steel and Garuda Indonesia, are reported to experience deprivation (Kevin, 2019). In the past seven years, Krakatau Steel has never recorded a profit on its financial statements. The most significant loss was in 2015 when Krakatau Steel recorded a loss of 4.160 trillion IDR, and in 2018, a loss of 1.074 trillion IDR and the debt was recorded at 36.105 trillion IDR. Then, Garuda Indonesia, in 2018, declared a profit of 11.6 billion IDR. Still, in the revised financial statements following the provisions of the Financial Services Authority (FSA), it suffered losses of 2.5 trillion IDR (OJK, 2019). This fact is very alarming because one of the objectives of establishing SOEs is to raise funds and replenish state coffers, which are then used to advance and develop the country's economy and prosper the livelihoods of many people.

Research on the factors that influence the financial performance of SOEs is an issue that needs to be re-examined. The results of the study by Sabrina & Muharam (2015) and Eforis (2017) show that state ownership has a negative effect on the financial performance of SOEs. It is different from the study of Yu (2013) in China that state ownership has a positive impact on financial performance. According to Yu (2013), companies with a significant degree of state ownership have the advantage that the state provides more considerable resources and authority. This authority will help SOEs to increase company revenues, which have an impact on financial performance.

Agency theory focuses on the agent and principal relationship in an organisation (Fayezi *et al.*, 2012). The existence of an agency relationship in agency theory occurs when the principal, as the owner of economic resources, gives authority to the manager as the agent in managing and controlling these resources. The relationship between agency theory and SOE financial performance is that if the manager's action is not in accor&ce with the principal's interests, it will trigger unhealthy company management, which will impact on the financial performance of SOE. Figures in financial statements such as capital investment, asset growth, and liquidity are expected to minimise conflicts between interested parties. Therefore, principals need to monitor, measure and assess the extent to which SOE management as an agent has succeeded to control and improve the financial performance of the SOE.

Signalling Theory explains information excluded by the company management on investment decision towards the company's external parties (Appuhami, 2018). In this case, the government has to give a positive signal or reliable information to the community on the financial performance of SOEs. According to Yu *et al.* (2010), information is published as a means to inform the public in which it is expected to be accepted by investors in making investment decisions. The government must take appropriate policies such as the placement of professionals by ignoring the political element in determining the board of

directors and commissioners of the company, as well as dissociating the intervention of personal and group interests in organisational decision making. Hence, SOEs can optimally increase their profits so that information about SOEs' financial performance that is presented to the public can provide a positive signal.

Based on Stakeholder Theory, the existence of a company is strongly influenced by the support provided by stakeholders to the company (Antonacopoulou & Meric, 2005). A company is an entity that does not only run for its interests but also to provide benefits to stakeholders (consumers, suppliers, government, society, analysts and other parties). SOEs are not entities that operate solely for their interests, but they must provide benefits for their stakeholders According to Oruc & Sarikaya (2011), stakeholder support in investing their capital in the company is to get positive feedback on financial performance. Especially the government as the most significant capital participant in which the profits generated by SOEs are then the profit tax is used to be deposited in the State Budget. The government can maximise budget realisation for the welfare of its people. Meanwhile, for domestic and foreign investors, positive financial performance can distribute significant dividends to meet the needs of life and even to increase investment and conduct investment diversification.

Financial Performance according to Egbunike & Okerekeoti (2018), is a benchmark of the company's financial statements in a certain period, to determine the company's ability to generate profits and pay debts for both long and short terms. This financial report can be used to provide financial information to parties inside and outside the company who have an interest in the company. Financial performance can be determined by analysing financial reports.

Previous studies conducted by Sudaryo & Pratiwi (2016) and Nurjanah (2018) show that capital investment has a positive effect on financial performance. The addition of capital investment provided to SOEs can be used maximally, both for operational activities and corporate investment, which will improve the financial performance of SOE companies listed on the IDX as well. It is different with the results of the study conducted by Idrus & Salim (2011), Hendawati (2017) and Destari (2019) which reveal that capital investment does not have a significant effect on financial performance.

Idrus & Salim (2011) show the research result that the higher the growth of assets in SOEs, it is expected to increase the SOEs profits. When asset growth has decreased, capital investment is used to finance company expenses so that it can reduce SOEs profits. The results of the study also state that asset growth has a negative effect on financial performance. On the other hand, the research by Nurjanah (2018), finds out that asset growth has a negative impact on financial performance. The additional capital investment is only used for expenses of operational costs so that costs become high and financial performance is low.

In terms of liquidity, the result of the study by Yosra & Sioud (2011), indicates that the liquidity ratio can measure the ability of SOEs to repay short-term liabilities with the obligations that must be fulfilled immediately within one year starting from the termination date. The higher the value of the liquidity ratio, the better the SOEs in managing its short-term debt and improving its financial performance. The result of the study conducted by Waleed *et al.* (2016) and Destari (2019) indicate that liquidity has a positive effect on the financial performance of SOEs. In contrast, the research by Sudaryo & Pratiwi (2016) and Hendawati (2017) show that there is no significant effect.

The result of the study by Eforis (2017) reveals that state ownership is the percentage of the total share capital owned by the state compared to the total shares outstanding on the Indonesia Stock Exchange. Substantial state ownership shows that the government has a large percentage of shares in the company's capital. The higher the share ownership owned by the government, the greater the government's control over SOEs. The research conducted by Puniayasa & Triaryati (2016) and Eforis (2017) shows that state ownership or government has a negative effect on the financial performance of SOEs. On the other hand, the study by Yu (2013) finds that state ownership has a positive impact on financial performance.

This study replicates the research conducted by Nurjanah (2018). In the previous research, the population used was SOEs, including those which were not listed on the Jakarta Stock Exchange. This sample is relatively biased and less specific to SOEs. In this study, the SOEs studied are those specifically listed on the Indonesia Stock Exchange with the 2015-2018 observation period. The reason for using a sample of SOEs listed on the IDX is that companies managed by the state have received state capital investment (PMN) and capital investment from the public. Still, the financial performance of several SOEs in the last few years has even suffered losses. To increase public confidence, SOEs can see the management of capital investment, asset growth, liquidity, and state ownership of policies issued to companies owned by 270 million Indonesians. Thus, the influence of the level of state ownership becomes possible and relevant to the study.

Hypothesis Formulation

The effect of equity investment on the financial performance of State-Owned Enterprises listed on the Indonesia Stock Exchange

According to Orens *et al.* (2013), capital investment is a source of funds obtained by a company both domestically and abroad. One of the most substantial capital payments receives by the state-owned enterprises is the state capital investment as regulated in the Government Regulation of the Republic of Indonesia Number 72 of 2016 (No.72, 2016). Funding in companies is indeed necessary for expanding investment and maximising company operations to increase SOEs profits. Capital investment is related to stakeholder theory, in which SOEs must be accountable for all activities that have been carried out both from the results of the project built and in the form of financial reports that can be used by the public. The company is not only engaged in its interests but also to provide benefits to stakeholders, consumers, suppliers, government, society and other parties. The studies conducted by Sudaryo & Pratiwi (2016) and Nurjanah (2018) show that capital investment has a positive effect on financial performance. Based on the previous elaboration, this study proposed the hypothesis as follows:

H_1: Capital investment has a positive effect on the financial performance of SOEs listed on Indonesia Stock

The effect of asset growth on the financial performance of State-Owned Enterprises listed on the Indonesia Stock Exchange

According to Sari & Haryanto (2013), asset growth can be calculated as the percentage of change in assets in a particular year minus the previous year. Asset changes can also be said to be the growth in total assets owned by SOEs. Li *et al.* (2012) state that an increase in assets followed by an increase in operating results would further enhance the confidence of outside parties in the company. Asset growth is related to the signalling theory because the

higher the growth of a company's assets, it means the company provides an excellent signal to all elements, from employees, government, investors and society so that it shows the company's outstanding financial performance. A study conducted by Idrus & Salim (2011) show that asset growth has a positive effect on financial performance. The higher the growth of assets will give an indication of increased productivity in the company's operations. Eventually, it will encourage the better financial performance of SOEs in the future. Based on the description above, this study proposes the following hypothesis:

H_2: Asset growth has a positive effect on the financial performance of State-Owned Enterprises Listed on Indonesia Stock Exchange

The effect of liquidity on the financial performance of State-Owned Enterprises listed on Indonesia Stock Exchange.

Yosra & Sioud (2011) state that the liquidity ratio is to measure and show the company's ability to pay its current liabilities when they are due. Liquidity is a ratio that shows the relationship between cash and current assets of the company with current liabilities. According to Jekwam & Hermuningsih (2018), liquidity measures a company's ability to meet its short-term obligations from the date the balance is made using short-term assets. While (Hong, 2019), argues that the higher the liquidity ratio, the more liquid the company is and it provides positive information on financial performance. Liquidity relates to the theory of signalling because the higher liquidity ratio of a company then it can be said that the company gives a good signal for its consumers, suppliers, governments, investors and the public. The company's ability to fulfil its short-term liabilities shows that the company is secure in repaying its debts. Therefore, it can be said that the value of debt is safe on the financial performance of SOEs. The research conducted by Waleed *et al.* (2016) and Destari (2019) shows that liquidity has a positive effect on the financial performance of SOEs. Based on the above elaboration, this study proposes the following hypothesis:

H_3: Liquidity has a positive effect on the financial performance of State-Owned Enterprises listed on Indonesia Stock Exchange

The effect of state ownership on the financial performance of State-Owned Enterprises listed on the Indonesia Stock Exchange

According to Eforis (2017), state ownership is the percentage of the total share capital owned by the state compared to the total shares outstanding on the Indonesia Stock Exchange. Significant state ownership shows that the government has a large percentage of shares in the company's capital. The high share ownership owned by the government shows, the greater the government's control over SOEs. A State-Owned Enterprise (BUMN) is a state-owned company with share capital which is entirely or at least 51% owned by the state. State ownership is related to agency theory in which the state or government is the owner of significant capital in SOEs. The agency relationship in agency theory occurs when the principal, as the owner of economic resources gives authority to the manager as the agent in managing and controlling these resources. The government, as the owner of significant capital in SOEs, in agency relations, has different motivations between public interests and personal or political interests. Studies conducted by Puniayasa & Triaryati (2016) and Eforis (2017) reveal that state or government ownership has a negative effect on the financial performance of SOEs. Based on the description above, this study proposes the following hypothesis:

H_4: State ownership has a negative effect on the financial performance of State-Owned Enterprises listed on Indonesia Stock Exchange

The previous elaborations are described in the following framework:

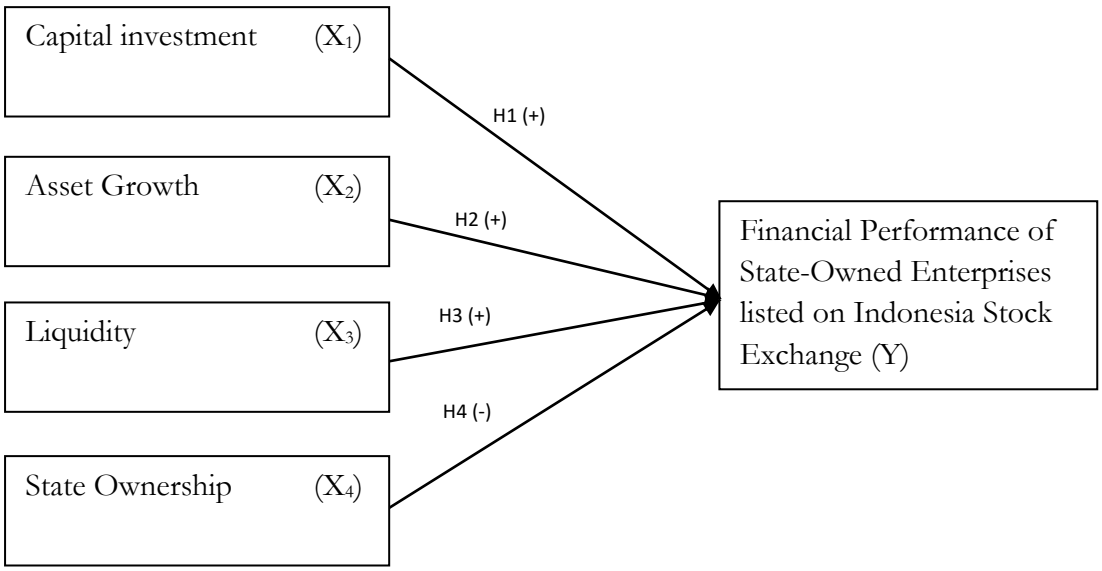

Figure 1. Framework

METHOD

The research object in this study is State-Owned Enterprises (BUMN) which are listed on the Indonesia Stock Exchange (BEI). The population in this study are all state-owned enterprises listed on the Indonesia Stock Exchange 2019. There are 20 companies in the 2015-2018 observation period (firm years) scattered throughout Indonesia, then 80 companies could be used as samples. The type of data used in this research is quantitative secondary data, which is measured on a numerical scale. The data were taken from existing sources through SOEs' financial reports published on the Indonesia Stock Exchange website or the websites of each SOE.

The data sampling was conducted using a purposive sampling method, which is based on certain types of data criteria from the SOEs listed on the Indonesia Stock Exchange. The sample criteria in this study are as follows:

1. SOEs that published audited annual financial reports during the research period of 2015, 2016, 2017 and 2018.
2. The SOEs have complete financial statements by the end of December 31st.

Operational and Variable Measurement Definition

Financial performance according to Nurjanah (2018), the financial performance is measured using Return on Equity (ROE) as it relates to the profit and equity of the company as well as to increase investment and operational activities of the State-Owned Enterprises which ultimately will improve the financial performance of State-Owned Enterprises.

$$ROE = \frac{\text{Net Profit}}{\text{Total Equity}}$$

Capital investment, according to Destari (2019), capital investment is the source of the funds obtained from domestic and overseas companies. One of the most substantial capital payments receives by the state-owned enterprises is the state capital investment as regulated in the Government Regulation of the Republic of Indonesia Number 72 of 2016. Capital investment can be measured by Debt to Equity Ratio (DER) as it relates to the equity earned by SOEs. The capital investment variables can be measured using the formula (DER) below:

$$\text{DER} = \frac{\text{Total Liabilities}}{\text{Total Equity}}$$

Asset Growth, according to (Nurjanah, 2018), the asset growth can be measured by calculating the company's current assets minus the previous year and then divided by the previous year. For the asset growth variable, it can be measured using the Asset Growth formula:

$$\text{AG} = \frac{\text{Asset Year t} - \text{Asset Year t} - 1}{\text{Asset Year t} - 1}$$

Liquidity according to Jekwam & Hermuningsih (2018), liquidity measures the ability of the company to fulfil the liabilities for its short term period, counted since the date of the balance sheet is made using the short term asset. Hong (2019), states that the higher the liquidity ratio, then the more liquid the company and providing positive information on financial performance. This liquidity ratio can be measured using Current Ratio (CR) because it relates to company's cash and current asset with current liabilities to show the company's ability in fulfilling the short term obligation which eventually will improve the financial performance of the SOEs. The liquidity variables can be measured using Current Ratio (CR):

$$\text{CR} = \frac{\text{Current Asset}}{\text{Current Liabilities}}$$

State ownership is the percentage of the total share capital owned by the state compared to the total shares outstanding on the Indonesia Stock Exchange. Substantial state ownership shows that the government has a large percentage of shares in the company's capital. The high share ownership owned by the government, the greater the government's control over SOEs. Eforis (2017) explains that state ownership can be calculated by the percentage of the total share capital owned by the state compared to the total shares outstanding on the Indonesia Stock Exchange. Or else, it can be seen in the financial statement data, which is the state-owned premium share ownership that is circulating on the Stock Exchange.

Data Analysis Methods

1. Descriptive Statistics

According to Nazaruddin & Basuki (2015), descriptive statistics are used to analyse data without making a conclusion that can be generalised by describing

the data obtained. Descriptive statistics test can be conducted using the SPSS program.

2. Classical Assumption Test

The classical assumption test to analyze multiple linear regression must be performed first. This test also is intended to give assurance that the equation regression obtained has accuracy in estimation, consistency and unbiased. Classical assumption test in this study consists of the normality test, autocorrelation test, heteroskedasticity and multicollinearity.

Hypothesis Testing

Hypothesis testing in this study is conducted to determine the significance level of the influence of the independent variable on the dependent variable. In this study, hypothesis testing was carried out by regression analysis, determination coefficient test, simultaneous significance test (F-test) and partial significance (t-test).

1. Multiple Linear Regression Analysis

Data analysis conducted in this study used the Statistical Package for Social Science (SPSS) program tools. Multiple regression analysis aims to determine the effect between the independent variables in this study, namely Capital investment (X1), Asset Growth (X2), Liquidity (X3), and State Ownership (X4) on the dependent variable in this study, namely the Financial Performance of State-Owned Enterprises. (Y) with the hypothesis testing formula as follows:

$$Y = a + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + e$$

Explanation:

Y : Financial Performance of State-Owned Enterprises

X_1 : Capital investment

X_2 : Asset Growth

X_3 : Liquidity

X_4 : State Ownership

a : Constants b_1, b_2, b_3, b_4,: Regression coefficient

e : *Error*

Determination coefficient test aims to discover how well the independent variable can explain the dependent variable from the value of *Adjust* R^2. According to Nazarudin & Basuki (2015), the more independent variables involved, the higher the *Adjust* R^2.

2. Partial Significance Test Uji (t-test)

Significance Test, Partial significance test, aims to test the effect of individually independent variables on the dependent variable partially in a regression model. The results of the partial significance test can be seen from the value of Unstandardized Coefficients B, and the value is significant. The hypothesis is accepted if the value of sig < α 0,05 and regression coefficient is in line with the hypothesis.

RESULTS AND DISCUSSION

Overview of Research Objects

This study used 80 research samples of State-Owned Enterprises listed on Indonesia Stock Exchange in the year 2015-2018. The description of the research sample is illustrated in Table 1:

Table 1. Details of SOEs Sample Selection for 2015-2018

No.	Information	Year 2015	Year 2016	Year 2017	Year 2018	Total Financial Report
1.	SOEs listed on the Indonesia Stock Exchange	20	20	20	20	80
2.	Outlier	(1)	0	0	0	(1)
3.	The number of samples that can be processed	19	20	20	20	79

The sample using was determined using a purposive sampling method. However, there was 1 sample in the outlier, because it caused the data to experience problems with the classical assumption test. Then, the sample data was trimmed into 79 research samples. Hence, this sample data passes the classical assumption test.

Data Quality Test

The data quality was tested in a descriptive statistical model.

Descriptive Statistics

Descriptive analysis is used to describe and describe the variables in the study, which consist of Capital investment, Asset Growth, Liquidity, and State Ownership of State-Owned Enterprises' Financial Performance. Table 2 shows the descriptive statistics of each variable in which the number of samples used was 79 samples. The variables are capital investment, asset growth, liquidity, and state ownership of financial performance.

The first variable of capital investment has a minimum value of -0, 108270; the maximum value is 11.395890; the mean is 2.69274481, and the standard deviation is 2.560919343. The asset growth variable has a minimum value of -0.099160; maximum value of 1.416600; the mean is 0.21046987, and the standard deviation is 0.233902647. The liquidity variable has a minimum value of 0, .365320; maximum value of 21,714550; the mean is 2.31083772, and the standard deviation is 3.090727594. The descriptive statistical test is presented in Table 2:

Table 2. Descriptive Statistics Test Results

	N	*Minimum*	*Maximum*	*Mean*	*Std. Deviation*
Capital Investment	79	0,108270	11,395890	2,69274481	2,560919343
Asset Growth	79	-0,099160	1,416600	0,21046987	0,233902647
Liquidity	79	0,365320	21,714550	2,31083772	3,090727594
State Ownership	79	0,510000	0,900250	0,64094177	0,106325733
Financial Performance	79	-0,239720	0,442990	0,10364101	0,109415395
Valid N (listwise)	79				

The state ownership variable has a minimum value of 0, 510000; maximum value of 0.900250; the mean is 0.64094177, and the standard deviation is 0.106325733. The financial performance variable has a minimum value of -0.239720; the maximum value is 0.442990; the mean is 0.10364101, and the standard deviation is 0.109415395.

Classical Assumption Test

assessed in this equation model includes the normality test, multicollinearity test, heteroscedasticity test, and autocorrelation test.

Based on the normality test, it is found that the research model with financial performance as the dependent variable shows the asymp sig. (2-tailed) 0.246. Asymp value. sig. (2-tailed) is higher than the value of $\alpha = 0.05$, which means that this research model is normally distributed.

The autocorrelation test shows that the Durbin-Watson value is 1.819 with a dU value of 1.8308 (according to the DW table). The data requirement is not subject to autocorrelation if dU <dW <4-dU, 1.8308 <1,819 <2.1692 so that it indicates the absence of autocorrelation. Hence, it can be concluded that autocorrelation does not occur in the sample data of the study.

Based on the Park test for heteroscedasticity testing, a significant value for each independent variable in this study is higher than α 0.05. Capital investment of 0.404; Asset Growth of 0.171; Liquidity of 0.236; and State Ownership of 0.428. Therefore, it can be concluded that heteroscedasticity does not occur in the research data.

Multicollinearity test is seen from the value of Tolerance or Variance Inflation Factor (VIF) shows that the VIF of each variable is <10. Capital investment is 1,123; Investment Asset Growth of 1,026; Liquidity of 1,086; and State Ownership of 1,068. All independent variables have a VIF value <10. It can be concluded that the independent variable of the research model is free from multicollinearity problems.

Hypothesis Testing

Coefficient of Determination Test (Adjusted R^2)

The coefficient of determination test aims to test the ability of the independent variable to explain variations in the change in the dependent variable. The level of regression accuracy is expressed in the coefficient of multiple determination (Adjusted R^2) whose values are between 0 and 1. A value close to 1 means that the independent variables can provide almost all the information needed to predict the variation of the independent variables. The results of the coefficient of determination test in this study are shown in Table 3:

Model	R	*R Square*	*Adjusted R Square*	*Std. Error of the Estimate*
1	0,378[a]	0,143	0,096	0,104003932

a. *Predictors: (Constant)*, State Ownership, Asset Growth, Liquidity, Capital Investment
b. *Dependent Variable*: KK

Table 3. Coefficient of Determination Test Results

Based on Table 3, it is found that the amount of Adjusted R^2 is 0.096 or 9.6%. It shows that financial performance is 9.6% by Capital investment, Asset Growth, Liquidity, and State Ownership. While the remaining 90.4% is explained by other variables outside the analyzed regression model.

Significant Simultaneous Test (F test)

The significant simultaneous test (F Test) aims to test whether all independent variables have an influence simultaneously or together on the dependent variable in the research model.

Based on Table 4, the value of the F test is 3.082, with a significance value of 0.021 <0.05. It shows that the independent variables of Capital investment (CI), Asset Growth (AG), Liquidity (L), and State Ownership (SO) have a significant effect simultaneously or together on the dependent variable on Financial Performance (FP). The results of the F test are shown in Table 4:

Table 4. Significant Simultaneous Test Results

	Model	*Sum of Squares*	*df*	*Mean Square*	*F*	*Sig.*
1	*Regression*	0,133	4	0,033	3,082	0,021[a]
	Residual	0,800	74	0,011		
	Total	0,934	78			

a. *Predictors: (Constant)*, State Ownership, Liquidity, Asset Growth, Capital Investment

b. *Dependent Variable*: Financial Performance

t-test

The t-test aims to test whether the independent variable has a partial effect on the dependent variable in the research model.

Table 5. t-test Results

		Unstandardised Coefficients		*Standardised Coefficients*		
	Model	*B*	*Std. Error*	*Beta*	*t*	*Sig.*
1	*(Constant)*	0,305	0,079		3,847	0,000
	CI	-0,003	0,005	-0,063	-0,553	0,582
	AG	0,053	0,051	0,113	1,040	0,302
	L	0,006	0,004	0,168	1,494	0,139
	SO	-0,342	0,114	-0,332	-2,986	0,004

a. Dependent Variable: FP

Based on Tabel 5, the regression model can be formulated as follows:

$$FP = -0{,}305 - 0{,}003\ CI + 0{,}053\ AG + 0{,}006\ L - 0{,}342\ SO + e$$

Hypothesis testing using multiple regression is conducted by testing the regression equation individually for each independent variable.

a. Hypothesis 1 Testing

This test aims to determine the effect of capital investment on financial performance. It shows that the capital investment variable is -0.003. It indicates that the coefficient direction of the capital investment variable has a negative direction. The sig value indicates> $\alpha = 0.05$, that is 0.582, which means that the capital investment variable does not have a significant effect on financial performance. Hence, it can be concluded that the first hypothesis which states that capital investment has no effect on financial performance (H1) is **rejected**.

b. Hypothesis 2 Testing

This test aims to determine the effect of asset growth on financial performance. Asset growth regression coefficient is 0.053. It shows that the direction of the coefficient of the asset growth variable has a positive direction. The sig value indicates > $\alpha = 0.05$, that is 0.302, which means that the asset growth variable does not have a significant effect on financial performance. Therefore, it can be concluded that the second hypothesis which states that asset growth does not affect financial performance (H2) is **rejected**.

c.Hypothesis 3 Testing

This test aims to determine the effect of liquidity on financial performance. The liquidity regression coefficient is 0.006. It shows that the coefficient direction of the liquidity variable has a positive direction. The sig value indicates > $\alpha = 0.05$, namely 0.139, which means that the liquidity variable does not have a significant effect on financial performance. Thus, it can be concluded that the third hypothesis stating that liquidity has no impact on financial performance (H3) is **rejected**.

d. Hypothesis 4 Testing

This test aims to determine the effect of state ownership on financial performance. The state ownership regression coefficient is -0.342. It shows that the direction of the efficiency of the state ownership variable has a negative direction. The sig value indicates < $\alpha = 0.05$, that is 0.004, which means that the state ownership variable has a significant effect on financial performance. Hence, it can be concluded that the fourth hypothesis states that state ownership has a negative and significant effect on financial performance (H4) is **accepted.**

The Effect of Capital investment Growth on Financial Performance of SOEs listed on IDX

The results of testing the first hypothesis show that capital investment does not affect financial performance. Capital investment in this study used the Debt Equity Ratio (DER) proxy. The lack of support for the first hypothesis indicates that capital investment in SOEs has not been able to improve SOEs financial performance. It shows that the higher the capital investment, the lower the financial performance of SOEs. Capital investment in SOEs is not used for investment but to cover operational costs because most SOEs suffered losses. Based on stakeholder theory, the amount of operational and non-operating costs is not proportional compared to the total revenue earned and the relatively significant total capital investment each year. It has not been able to provide positive benefits for stakeholders (consumers, suppliers, government, society, analysts and other parties). Whereas the low ability of companies in managing the capital deposited by the government to SOEs has resulted in lowering the financial performance of SOEs. The results of this

study are supported by Idrus & Salim (2011), Hendawati (2017) and Destari (2019), which prove that capital investment does not affect financial performance. The increased asset growth in SOEs every year is not used for asset investment or productive investment, but it is used for other expenses. Asset growth is used for operating expenses.

The Effect of Asset Growth on Financial Performance of SOEs listed on IDX

The results of testing the second hypothesis indicated that asset growth does not affect financial performance. Asset growth in this study used the Asset Growth (AG) proxy. The lack of support for the second hypothesis indicates that asset growth in SOEs has not been able to improve the financial performance of SOEs because most of the SOEs suffer losses. Based on the signalling theory, SOEs do not use asset growth for productive investment. Instead, asset growth is used for operational and non-operational expenses. Therefore, it does not give positive signals or wrong information by SOEs management to the public and reduces investors' decisions to invest, which will reduce the financial performance of SOEs. The results of this study are supported by Nurjanah (2018), who proves that asset growth does not affect financial performance.

The Effect of Liquidity on Financial Performance of SOEs listed on IDX

The results of testing the third hypothesis indicate that liquidity has no effect on financial performance. Liquidity in this study uses a Current Ratio (CR) proxy. The lack of support for the third hypothesis indicates that liquidity at SOEs has not been able to improve the financial performance of SOEs. The higher liquidity shows that the increase in lending to creditors reduced the ability to earn profits because part of the working capital does not rotate productively and causes a decline in financial performance. Based on the signalling theory, it shows that high liquidity provides a positive signal for good guarantees for short-term creditors. Still, it will harm the ability to earn profits because part of the working capital does not rotate, and financial performance declines. Moreover, the public and investors consider the liquidity of the company as a standard risk reference in SOEs. Therefore, the level of liquidity does not affect financial performance. The results of this study are supported by Sudaryo & Pratiwi (2016) and Hendawati (2017) who prove that liquidity does not affect financial performance.

The Effect of State Ownership on Financial Performance of SOEs Listed on IDX

The fourth test result shows that state ownership has a significant negative effect on financial performance. The support of the fourth hypothesis indicates that state ownership of SOEs has not been able to improve the financial performance of SOEs. State ownership has a high risk because it has significant capital so that it tended to act in its interests at the expense of public importance and created an unbalanced policy direction, which affected terrible financial performance. Based on agency theory, state ownership as the owner of the principal economic resources gives authority to the SOE manager as the agent in managing and controlling these resources. SOE as an agent that remains motivated and prioritises personal interests or the interests of a group can affect the decreasing financial performance of SOE. State ownership was also considered having insufficient and experienced resources to monitor and discipline company financial performance. Hence, high state ownership has a negative and significant effect on financial performance. It also relates to the state-owned company Krakatau Steel, which is along with the government's *Nawacita* program for infrastructure development, would get the benefit. It refers to the demand for materials such as steel would be higher. Unfortunately, this program also has not been able to help Krakatau Steel to get a net profit. Garuda Indonesia, as one of the state-owned airlines for aviation transportation in Indonesia, can be an excellent example

of SOE for other companies in Indonesia by not violating the rules in the presentation of financial statements. The results of this study are supported by the research of Puniayasa & Triaryati (2016) and Eforis (2017) who prove that state ownership has a negative and significant effect on financial performance.

CONCLUSION

Based on the results of the analysis that has been carried out by the results of hypothesis testing and discussion, it can be concluded that capital investment, asset growth and liquidity do not affect on the financial performance of State-Owned Enterprises. Meanwhile, state ownership has a negative and significant effect on the financial performance of State-Owned Enterprises. The implications of this research are expected to provide an overview. They can be used as a guideline or material for consideration for the government as the competent authority in making policies and making decisions on SOEs. The government needs to supervise the funding deposited to SOEs and choose the ranks of the Board of Directors and Commissioners of SOEs adequately based on their professional abilities to put political interests aside. Moreover, the government needs to pay attention to important factors that affect financial performance such as capital investment, asset growth, liquidity and state ownership to create a growing national economy and improve the livelihoods of many Indonesians as stipulated in article 2 of law number 19 of 2003.

The limitations in this research are only restricted to SOEs listed on the IDX during the 2015-2018 period. Therefore, the sampling which was taken using a purposive sampling method leads to the decrease of the number of samples being studied. Second, this study only used capital investment, asset growth, liquidity and state ownership as the variables affecting the financial performance of State-Owned Enterprises.

Based on the conclusions and limitations of the research elaborated previously, it is suggested for further research to add the observation period. Moreover, it is expected to add other variables such as involving moderating or intervening variables so that they can compare which effect is more significant. An independent commissioner variable can also be added to measure the quality of the SOEs board of commissioners which affects the financial performance of State-Owned Enterprises.

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