

## THE ROLE OF PERFORMANCE MEASUREMENT CRITERIA FOR SUPERIOR PERFORMANCE (KPKU) ON SOE PERFORMANCE, MODERATED BY CORPORATE GOVERNANCE

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### ABSTRACT

*The government has launched the implementation of a Malcolm Baldrige Criteria for Performance Excellence based system since 2013, known as the Criteria for Superior Performance (KPKU). However, it is uncertain whether the KPKU performance management system is capable of driving the performance of the State Owned Enterprises as a whole. The purpose of this study was to determine the effect of the implementation of the KPKU performance management system on SOE performance, which is moderated by the governance of State-Owned Enterprises. This research uses quantitative research methods, with ordinary least squares. The population are Indonesian State-Owned Enterprises (SOE). The sample selection is done purposively. A total of 16 (sixteen) State-Owned Enterprises are used as samples, with 5 (five) years of observation. The results showed that the KPKU-based performance management system strengthened by the management of State-Owned Enterprises had a positive effect on the performance of State-Owned Enterprises. It is suggested to the Ministry of SOEs that the KPKU performance management system can achieve its goal of encouraging the performance of State-Owned Enterprises, SOE governance must continue to be improved in its application.*

Key words: Malcolm Baldrige Criteria for Performance Excellence (MBCfPE), Criteria for Superior Performance (KPKU), Corporate Governance (CG), Performance of State-Owned Enterprises.

### INTRODUCTION

The development of performance of State-Owned Enterprises experiences variability from year to year. A small number of SOEs experience rapid profit development. However, most SOEs experience slow profit growth. Many factors determine the performance of SOEs, both internal and external factors. One of the factors that can encourage SOE performance is the performance management system that is applied.

On January 16, 2013 the Secretary of the Ministry of SOEs issued Letter Number S-08.MBU / 2013 dated January 16, 2013 concerning the Submission of Guidelines for Determination of Key Performance Indicators (KPI) and Criteria for Superior Performance (KPKU) to State-Owned Enterprises (SOEs). The basis for the issuance of these rules is because based on evaluation, the implementation of KPI determination and annual performance targets in the past have in fact not yet had an optimal growth impact on SOE businesses. Proven, among others, ROA (Return on Assets) of all BUMN businesses in the last 5 years has been almost stagnant at around 4%. In addition, the current KPI determination arrangements, are unclear, less assertive, and less comprehensive in regulating the selection of KPIs, weighting and determining their targets that can optimize efforts for growth and sustainability of performance as well as enhancing company competitiveness. However, there is no comprehensive measurement regarding the successful use of the KPKU to encourage the performance of SOEs.

The Ministry of State-Owned Enterprises has also issued Decree of the Ministry of State-Owned Enterprises Number: PER - 01 / MBU / 2011 about the Implementation of Good Corporate Governance in State-Owned Enterprises and Regulation of the State Minister of State-Owned Enterprises Number: PER-09 / MBU / 2012 concerning Amendments to the Regulation of the Minister of State Owned Enterprises Number PER-01 / MBU / 2011 about the Implementation of Good Corporate Governance in State Owned Enterprises. Corporate Governance aims to improve company performance.

For the purpose of evaluating the implementation of governance, the Ministry of State-Owned Enterprises has also issued a Decree of the Secretary of the Ministry of State-Owned Enterprises Number: SK - 16 /S.MBU/2012 about Indicators / Parameters for Assessment and Evaluation of the Implementation of Good Corporate Governance) In State-Owned Enterprises. Evaluation of corporate governance aims to determine the level of implementation of governance. For the purpose of governance arrangements of companies listed on the Indonesian Effect Exchange, including SOEs, the Government has issued Decree of the Chairman of the Capital Market and Financial Institution Supervisory Agency No. KEP-643 / BL / 2012 dated 7 December 2012 concerning the Formation and Guidelines for the Work of the Audit Committee, Circular of the Financial Services Authority No. 55 / SEOJK.04 / 2017 dated 6 December 2017 concerning Reports on the Implementation of Good Corporate Governance Efforts Conducting Business Activities as Underwriters and Brokers. Banking SOE governance arrangements are specifically regulated in Bank Indonesia Regulation No. 8/4 / PBI / 2006 concerning Implementation of Good Corporate Governance for Commercial Banks, Bank Indonesia Regulation No. 8/14 / PBI / 2006 concerning Amendments to Bank Indonesia Regulation Number 8/4 / PBI / 2006 concerning Implementation of Good Corporate Governance for Commercial Banks, and Bank Indonesia Circular Letter Number 9/12 / DPNP dated May 30, 2007 concerning Calculation of Self Composite Value Good Corporate Governance Assessment.

With good SOE governance, it is hoped that the KPKU's performance management system can achieve its goal of boosting the performance of State-Owned Enterprises. Article 1 of the Decree of the Ministry of State-Owned Enterprises Number: PER - 01 / MBU / 2011 states that Good Corporate Governance are the principles that underlie a process and mechanism of company

management based on laws and business ethics. Furthermore, in article 2 paragraph 1 it is regulated that SOEs are obliged to apply GCG consistently and sustainably based on this Ministerial Regulation while still observing the provisions, prevailing norms and articles of association of SOEs. Thus governance must become the basis for the overall implementation of SOE operations, including the implementation of a performance management system for the Superior Performance Assessment Criteria (KPKU). Therefore this study studies the effect of the implementation of the KPKU system, reinforced by SOE governance.

From previous researches on the influence of Malcolm Baldrige Criteria and KPKU's performance management system on company performance, there are still differences in the scale of benefits. Peng and Prybutok (2014) conclude from the results of their research that there is a positive correlation between the criteria for improving organizational performance excellence through the Baldrige program and Innovation ability. Bailey (2015) concluded from the results of his research that Baldrige's criteria used an approach that made it adaptable for factories, business, health care, education, and non-profit organizations throughout the world. Alomairy (2016) concluded from the results of his research that there is a positive correlation between the performance improvements of organizational excellence through the Baldrige program. Menezes, Martins, and Oliveira (2016) conclude from the results of their research that strategic planning and the focus of operations directly influence management effectiveness. Aydin and Kahraman (2018) conclude from the results of their study that the proposed multi-criteria hierarchy approach based on hierarchical analytic processes (AHP) efficiently measures the quality performance of companies implementing MBNQA. Raharja, Hasyim, and Arifianti (2018) concluded from the results of their research that the hotel under study that was measured based on Malcolm Baldrige's criteria, showed that the hotel's performance was in the initial repair phase. Dasaranti, Arifianti, Tresna, and Wulan (2018) concluded from the results of their research that the quality control of Papandayan Hotel service products is based on the perception of the company as an industry leader, while the research results are based on consumer perceptions, Papandayan hotel product quality control services are in the benchmark leader category. Cruz (2018) conducted a study of how work processes affect organizational outcomes using the Malcolm Baldrige framework. The results showed that there was a positive correlation with Malcolm Baldrige's framework. Wibowo (2019) conducted research on improving company performance using the Superior Performance Assessment Criteria method for companies engaged in services. According to Wibowo (2019) the SOE KPKU is the adoption and adaptation of Malcolm Baldrige's criteria. The results of the implementation of the KPKU in the service company have resulted in improved performance.

Based on discussions on government regulations regarding the implementation of the performance management system Superior Performance Assessment Criteria (KPKU) and SOE governance and the results of previous research, the research problems are as follows:

1. Does the performance management system of the Superior Performance Assessment Criteria (KPKU) affect SOE performance?
2. Can SOE governance strengthen the influence of the KPKU on the performance of State-Owned Enterprises?

## LITERATURE REVIEW

### Agency Theory

Jensen and Meckling (1976) state that organizations are seen as a nexus and set of contracts between the factors of production. So there are many management contracts in the company between the owner and company management. The larger the organization, the further the relationship between principals and managers as agents of the company. Meckling and Jensen (1976) stated from the results of his research that business companies owned by the public were extraordinary social discoveries. Millions of individuals voluntarily entrust their personal wealth to managers based on a complex set of contractual relationships that describe the rights of the parties involved. Agency theory regulates the relationship between company owners as principals and management as corporate agents. The company owner has the capital to be used in the company's operations, while the manager has the expertise needed in the company's operations. The company owner wants the best financial performance of the company, while the company manager wants the highest compensation possible. The manager as an agent of the company will act in the interests of the company's owners if given adequate compensation and is bound by a contract. The owner of a State-Owned Enterprise is the Government of Indonesia. The SOE Directors are managers trusted by the Government. The Government of Indonesia entered into contracts with SOE Directors. The government also makes regulations regarding the remuneration of SOE directors. In article 16 paragraph (3) of Law No. 19 of 2003 concerning State-Owned Enterprises is stipulated that prospective members of the Board of Directors who have been declared to have passed due diligence and propriety must sign a management contract before being appointed as a member of the Board of Directors.

### The performance

The company's performance is the result of management activities. There are several definitions of performance. Messer (2017) states that comparing actual performance with planned activities is an important management control. The implication of Messer's statement is that performance is what has actually been done compared to the plan. So it covers the performance of input, process, and output. Dincer, Hacıoglu, and Yuksel (2017) state that performance measurement is a process that analyzes the company's output and the effectiveness of the resources obtained by the company. So according to Dincer et. al performance includes the output and effectiveness of resource use. So the relationship between output and input is included in performance measurement. Kask and Linton (2016) divide performance into several levels namely no performance, low performance, medium performance, and high performance. The criteria for these levels must be determined by the company or organizational entity.

### **Criteria for Superior Performance (KPKU)**

Criteria for Superior Performance is a performance management system that is applied to Indonesian State-Owned Enterprises. It is called KPKU. The KPKU system was promulgated through a Decree of the Secretary of the Ministry of SOEs Number S-08.MBU / 2013 dated January 16, 2013 concerning the Submission of Guidelines for Determination of Key Performance Indicators (KPI) and Superior Performance Assessment Criteria (KPKU) at State-Owned Enterprises (SOEs). In item 3, the SOE ministry letter states that for alignment and consistency in structuring the performance management system in SOEs, the Directors should set the KPKU Score as KPI in the Leadership Perspective, Governance and Community Responsibility. The KPKU score is a reflection of the expected quality of the performance management system at SOEs. Determination of KPKU Score targets to be adjusted to the conditions of each SOE. The aim of the regulation is to facilitate the application of the KPKU system to SOEs. In item 4, the SOE Ministry letter also states that in the process of preparing KPI along with its targets, in order to optimize SOE employees who have participated in SOE KPKU training, whether organized by the Ministry of SOEs in collaboration with the SOE Executive Forum (FEB), or In House Training which is held by each SOE. Because the implementation of the KPKU performance management system requires high technical capabilities, the human resource that will implement the system must receive training first.

The purpose of the KPKU is to improve the effectiveness of controlling SOE performance, optimizing the efforts to capitalize the potential of SOE, and accelerate the growth of SOE performance. Research studies the benefits of the KPKU system on the growth of SOE performance.

In the guideline for determining SOE Key Performance Indicators (KPI), which is an attachment to the Decree of the Secretary of the Ministry of SOE Number S-08.MBU / 2013 dated January 16, 2013, it is determined that the Strategic Plan of the Ministry of SOEs in 2012 - 2014 includes the use of Superior Performance Assessment Criteria (KPKU) as a guideline in improving SOE performance and in measuring SOE performance, which was adopted and adapted from the Malcolm Baldrige Criteria for Performance Excellence (MBCfPE), where MBCfPE has proven to be the most comprehensive company performance management system that can make a company excel.

The essence of SOE according to the SOE KPKU Guidelines is the management of company performance to be carried out with an approach to selecting, collecting, aligning and integrating all performance data and information for tracking daily operations and for tracking performance the organization as a whole includes progress relative to objectives the company's strategic and work programs; determine key performance measures for financial and non-financial aspects (performance drivers), both for the short term and for the long term; company performance measurement system must be able to respond optimally to the company's internal and external changes that are fast even ones unexpected, analyze and evaluate the performance and capabilities of the company to determine the progress of achieving strategic goals, competitive advantage, financial health, the company's ability to respond quickly to changing needs and internal and external challenges of the company; communicating the results of performance analysis and evaluation to all work units and across work processes for best learning and sharing practices (best practices); determine performance projections by utilizing the results of performance evaluations and the use of main comparative data and main competition data; develop priorities for continuous performance improvement, innovation, and breakthroughs, based on the results of performance analysis and evaluation, implementing priorities and exploiting opportunities for innovation and breakthroughs.

Based on the KPKU approach, there are 5 (five) perspectives on measuring business performance, and 12 aspects of measuring the company's system maturity. The five perspectives of measuring business performance are product and process effectiveness, customer focus, workforce focus, leadership, governance and social responsibility, and finance and markets. The twelve aspects of corporate system maturity are senior leadership, social responsibility and governance, strategy development, strategy implementation, customer voice, customer engagement, measurement, analysis, and improvement of company performance, information management, information and information technology, workforce environment, workforce engagement, work systems and work processes.

Criteria for Superior Performance (KPKU), as stated in the letter of the Secretary of the Ministry of SOEs Number S-08.MBU / 2013 dated January 16, 2013, originated from Malcolm Baldrige Criteria (MBC). Malcolm Baldrige worked as Secretary of Commerce from 1981 until he died in a rodeo accident in July 1987. Baldrige strongly supported quality management as a key to the country's prosperity and as a long-term force. The term quality control was only discovered at that time. Baldrige was the one who made the initial concept of quality control. As a form of honor, Congress established its name as the name of an annual award in the field of quality improvement. The Baldrige Award was given by the President of the USA to business, education and health organizations, who put themselves forward and were considered outstanding in seven assessment criteria namely leadership, strategic planning, customer and market focus, measurement, analysis and knowledge management, human resource focus, process management, and results. The Congress launched this award program in 1987 to give recognition and appreciation to business organizations in the USA in terms of their achievements in quality and performance and to raise awareness about the importance of quality and good performance as a competitive edge.

MBCfPE is built on 11 (eleven) concepts and procedures of interrelated core values namely leadership that has a vision, all-excellence is directed by customers, learning organizations and employees, assesses employees and partners, agility, focus on the future, innovation management, fact based management, community responsibility, focus on results and value creation, and systems perspective. The Malcolm Baldrige National Quality Award (MBNQA) is a framework for performance excellence that is widely used to identify organizations that have exceptional customer-focused processes. The MBNQA system is based on a grading system that uses a scale of 0-1000 points or 1000 criteria.

### **Corporate Governance**

Corporate Governance has been announced by the Ministry of SOEs since 2002. Corporate governance in SOEs is regulated by Minister of State Owned Enterprises Regulation Number PER - 01 / MBU / 2011 concerning Implementation of Good Corporate Governance in State Owned Enterprises and Regulation of the Minister of State for State-Owned Enterprises Number: PER-09 / MBU / 2012 Regarding Amendment to the Regulation of the Minister of State-Owned Enterprises Number PER-01 / MBU / 2011 Regarding the Implementation of Good Corporate Governance in State-Owned Enterprises. For the purpose of regulating the implementation of GCG in Indonesian SOEs, in SOE Ministry Decree No. 117 of 2002 Article 1 states that corporate governance is a process and structure used by SOE organs to increase business success and corporate accountability in order to realize shareholder value in the long term while taking into account the interests of other stakeholders, based on legislation and values ethics.

Evaluation of SOE governance is carried out based on the Decree of the Secretary of the Ministry of State-Owned Enterprises Number: SK - 16 /S.MBU/2012, about indicators / parameters for evaluation and evaluation of the implementation of Good Corporate Governance in State-Owned Enterprises. The first time the assessment obligation was carried out based on article 44 of the regulations of the Ministry of State-Owned Enterprises Number: PER - 01 / MBU / 2011, where SOEs are required to measure the implementation of GCG in the form of assessment (ie the program) to identify the implementation of GCG in SOEs through measurement implementation and implementation of GCG in SOEs which are held regularly every 2 (two) years; and evaluation (review), a program to describe the follow-up of the implementation and implementation of GCG in SOEs conducted the following year after an assessment (assessment), which includes evaluating the results of the assessment and following up on recommendations for improvement. Decree of the Ministry of SOE number SK - 16 /S.MBU/2012 refines the assessment methodology of corporate governance by setting indicators / parameters of evaluation and evaluation. In the OJK SE No. 55 / SEOJK.04 / 2017 states that good corporate governance is securities company governance that applies the principles of openness, accountability, responsibility, independence and fairness.

The Board of Commissioners is a corporate organ formed for the benefit of the company owner. In article 108 paragraph 1 and paragraph 2 of Law No. 40 of 2007 it is stated that the Board of Commissioners supervises the management policies, the management process in general, both regarding the company and the company's business, and provides advice to the Directors.

### **RESEARCH HYPOTHESIS**

#### **Effect of KPKU Performance Management System on BUMN performance**

The main purpose of the KPKU performance management system is to improve the performance of SOEs. In the KPKU system there are 5 (five) perspectives on measuring business performance, and 12 aspects of measuring the company's system maturity. The five perspectives of measuring business performance are product and process effectiveness, customer focus, workforce focus, leadership, governance and social responsibility, and finance and markets. The twelve aspects of corporate system maturity are senior leadership, social responsibility and governance, strategy development, strategy implementation, customer voice, customer engagement, measurement, analysis, and improvement of company performance, information management, information and information technology, workforce environment, workforce engagement, work systems and work processes. With a focus on 5 (five) perspectives and 12 (twelve) aspects, the KPKU should be able to significantly boost SOE performance. Most of the previous research results showed a positive influence on the performance management system of the KPKU based on MBCfPE. The results of Winn and Cameron's research (1998) show that MBNQA is a modified model and has implications for managing quality improvement initiatives. Cazzel and Jefri (2009) conducted research on the impact of companies that received the MBNQA award. This impact is examined in several categories including financial performance, market share, and employee productivity.

This study explores the achievements of each company and compares the common factors they share with each other and finds that the 5 (five) companies that they studied experienced extraordinary financial growth of an average of 100% in sales or revenue as a result of their dedication for quality which ultimately led to winning MBNQA. Prybutok, Zang, and Peak (2010) conclude from the results of their research on government organizations that the criteria proposed by the Malcolm Baldrige National Quality Award (MBNQA) are based on instruments that provide a set of appropriate actions for municipal governments to review and measure business processes (organizations). These steps can improve decision making about resource allocation because such steps allow process evaluation and understanding better.

Sawaluddin, Djumahi., And Rahayu (2013) conducted research with the aim to explore the relationship of MBNQA quality management practices, namely the influence of leadership, workforce focus, strategic planning, and customer focus on operations focus, measurement, and analysis as well as knowledge transfer and organizational performance . The results showed that good leadership can improve strategic planning, workforce focus, customer focus, and organizational performance. Hossain and Prybutok (2014) conducted the first empirical study of the Malcolm Baldrige National Quality Award framework using causal latent semantic analysis. This first study shows that the cumulative findings from previous studies support the view that construction within a framework has a large influence on one another. Peng and Prybutok (2014) conducted research on the relative effectiveness of each of the 2013-2014 Malcolm Baldrige National Quality Award categories. The results validate the effectiveness of the Baldrige category and quantitatively support the theoretical underpinning of the Baldrige model. This study hypothesizes that the Baldrige performance excellence program helps organizations systematically develop the dynamic / innovation abilities needed for innovation. This analysis confirms a positive correlation between Organizations' improved performance excellence through the Baldrige program and Innovation capabilities represented in the six blocks of innovation model used in this study. Bailey (2015) conducted research on how the Baldrige standard has become a common language for



organizational excellence throughout the world. The results showed that the Baldrige criteria used an approach that made it adaptable for factories, businesses, health care, education, and non-profit organizations throughout the world.

This approach allows organizations to use Criteria requirements as a common language with their organizations, the language under consideration to guide them towards excellence. Alomairy (2016) conducted research on the effect of the Baldrige Performance Excellence Program on organizational innovation and dynamic capabilities. The hypothesis of this study is that the Baldrige performance excellence program helps organizations systematically develop the dynamic / innovation abilities needed for innovation. The results of this study prove that there is a positive correlation between the performance improvement of organizational excellence through the Baldrige program, and the ability of innovation is represented in the six blocks of innovation model used in this study. Menezes, Martins, and Oliveira (2016) conducting research on the effectiveness of education management in seven units of Higher Education Institutions. The results showed that the strategic planning and focus of operations direct effect on management effectiveness. We verify that there is a positive correlation between all Baldrige excellence model constructs and the effectiveness of tertiary education management.

Aydin and Kahraman (2018) developed a new multi-criteria hierarchical approach based on a hierarchical analytic process (AHP) to measure the performance advantages of companies that proposed MBNQA. The results showed that the proposed AHP approach efficiently measured the quality performance of companies implementing MBNQA. Raharja, Hasyim, and Arifianti (2018) conducted a study with the aim of analyzing the performance of a four-star hotel in the city of Tangerang, Indonesia. In this study performance was measured based on Malcolm Baldrige's criteria. The results showed that the hotel performance was in the initial repair phase. Dasaranti, Arifianti, Tresna, and Wulan (2018) conducted a study to analyze quality control conducted by the Papandayan Hotel with the Malcolm Baldrige method. The results showed that the quality control of Papandayan Hotel service products based on the perception of the company is an industry leader, while the results of research based on consumer perceptions, the quality control services of Papandayan hotel products are in the category of benchmark leaders.

Cruz (2018) conducted a study of how work processes affect organizational outcomes using the Malcolm Baldrige framework. The results showed that there was a positive correlation from the Baldrige Excellence Framework: the category of senior leadership roles; the role category of Labor Involvement; and the category of the role of Customer Engagement in achieving organizational results. The researcher recommends adopting the senior leadership section and the workforce involvement section of the Baldrige Excellence Framework for team leaders of organizations, departments, and divisions that do not have the resources to complete the entire Baldrige performance excellence program. Wibowo (2019) conducted research on improving company performance using the Superior Performance Assessment Criteria (KPKU BUMN) method for companies engaged in services. According to Wibowo (2019) the SOE KPKU is the adoption and adaptation of Malcolm Baldrige's criteria from the United States. The outputs of the KPKU method are scores and band scores, which describe the company's performance in general. The results of the implementation of the KPKU in the service company have resulted in improved performance where in 2010 the company score was 233.1 (early development) and after making improvements in 2013 it was 324 (early result), and in 2017 after assessment the score reached 441.25 . According to Robert, Micky, MD (2020), in 2011 the Tennessee State Government of the United States was faced with poor health ratings with newly elected officials promoting a customer-focused government. To refocus, the Tennessee Department of Health chose a multi-year plan to adopt, disseminate, and integrate the Malcolm Baldrige Performance Excellence framework. The Baldrige Performance Excellence framework was found as an effective approach to promoting cultural change through an emphasis on improvement in public health organizations.

Based on the discussion above, the hypothesis is set as follows:

**H1: Criteria for Superior Performance (KPKU) have a positive effect on SOE performance.**

### **Moderation of corporate governance on the influence of the KPKU Performance Management System on SOE Performance**

Corporate governance is a commitment and the rules of the game in conducting business. Rules of the game are built from rules and regulations that apply to companies and best practices in business. Everything is spelled out in written provisions so that regular evaluations can be carried out on their implementation. Thus good SOE governance should encourage SOE performance, both financial performance and corporate image. The results of previous studies show the benefits of governance to improve company performance. Cahyani (2009) conducted a study aimed at investigating the effect of corporate governance on company performance. The samples used in this study were 101 samples which were pooled data. The test results for the regression model with return on equity as the dependent variable show the CGPI variable has a significant positive effect on operating performance. Al Haddad et. al (2011) has conducted research on the relationship between corporate governance and the performance indicators of industrial companies in Jordan which are listed on the Amman Stock Exchange (ASE). The results showed a positive relationship between profitability measured using EPS and ROA and Corporate Governance; positive relationship between liquidity, dividends per share, and company size with CG; and the positive relationship between CG and company performance. Todorovic (2013) concluded from the results of his research that there was a very clear relationship and the effect of the implementation of CG principles on company performance. Aggarwal (2013) concluded from the results of his research that governance has a positive and significant influence on the company's financial performance. Pillai and Al Malkawi (2017) examined the impact of internal corporate governance (CG) mechanisms on company performance in GCC countries. This study uses a set of company-level data panels from 349 financial and non-financial companies listed on the stock exchanges of the GCC countries. The results show that governance variables such as government share ownership, audit type, board size, corporate social responsibility and leverage significantly affect FP in most countries in the GCC. Ararat, Black, B. Burcin (2016) concludes from the results of his study that there is a strong relationship between governance and the market value of the shares of public companies in Turkey.

Corporate Governance reinforces the influence of Malcolm Baldrige Criteria on company performance. The results of previous studies also show that governance strengthens the influence of the KPKU on SOE performance. Oktrivina et. al. (2017) conducted a study to examine and analyze the effect of internal control on corporate governance, the effect of internal control on company performance, and the effect of corporate governance on company performance. The results showed that internal control has a positive effect on corporate governance, internal control has a positive effect on Malcolm Baldrige's performance, and corporate governance has a positive effect on Malcolm Baldrige's performance.

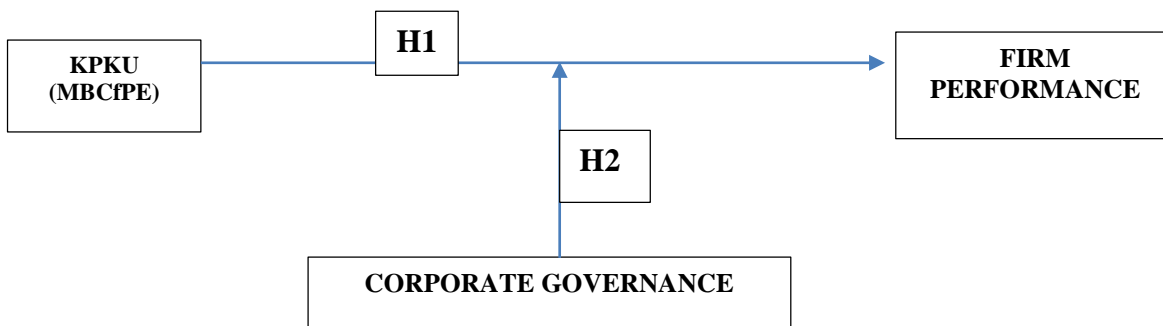
The hypothesis can be set as follows:

**H2: SOE governance strengthens the influence of the KPKU on SOE performance.**

**Research Framework**

Based on the development of the above hypothesis, the figure of the research framework is as follows;

**Figure 2  
Research Framework**



**RESEARCH METHODOLOGY**

**Research design**

The study design was based on research questions and the interrelationship between research variables. The research approach uses quantitative methods, with the aim of testing the factors that influence SOE performance.

**Population, Samples, and Data Collection Methods**

The population is the Republic of Indonesia State-Owned Enterprises. The sample is 16 (sixteen) State-Owned Enterprises. The unit of analysis is the company. To achieve the research objectives, the sample must meet certain criteria. The criteria are:

- State-owned enterprises.
- Has complete KPKU data in its Annual Report.
- Observation year is the year since the adoption of Letter Number S-08.MBU / 2013 dated January 16, 2013 concerning Submission of Guidelines for Determination of Key Performance Indicators (KPI) and Superior Performance Assessment Criteria (KPKU) in State-Owned Enterprises (SOEs).

The data collected is secondary data, which comes from the Annual Report of State Owned Enterprises that has been published.

**Operational Research Variables**

This research model includes dependent variables, independent variables, and moderation variables. The details of the variables in this study are as follows:

**Table 1: Measurement Variable**

Variable Function	Research Variable	Measurement Proxy	Scale
Dependent	Performance of State-Owned Enterprises (SOE)	Return on Assets listed in the Annual Report.	Scale Ratio
Independent	Measurement Criteria for Superior Performance (KPKU)	KPKU Implementation Score	Scale Ratio
Moderating	Corporate governance	Governance Implementation Scores from External Assessor.	Scale Ratio

### Empirical Research Model

Data collected were analyzed using statistical analysis, namely multiple linear regression analysis (multiple regression analysis) with the following contribution models:

$$Y = a + b_1X_1 + b_2X_2 + b_3X_1X_2 + \mu$$

Where:

- Y = SOE performance
- X1 = Superior Performance Assessment Criteria (KPKU)
- X2 = Corporate Governance
- X1X2 = Modulation of Governance on the Effect of KPKU on BUMN Performance.
- $\mu$  = Error.

### Data analysis

In this study the analytical method used is Multiple Linear Regression. In this study, testing was conducted in the period after the implementation of the Ministry of SOE Letter number S-08.MBU / 2013 dated January 16, 2013 concerning Submission of Guidelines for Determination of Key Performance Indicators (KPI) and Superior Performance Assessment Criteria (KPKU) on State-Owned Enterprises (SOEs) . The implementation of the KPKU system began in 2014, after intensive socialization and internalization.

The data that has been collected is analyzed using a statistical test consisting of a classic assumption test and a hypothesis test. Hypothesis testing includes data normality test, heterokedasticity test, multicollinearity test, and serial correlation test. Hypothesis testing includes the goodness of fit test, the F test, and the individual t test.

## RESULT AND DISCUSSION

### Research result

The study population is a State-Owned Enterprise. The research sample is 16 (sixteen) State-Owned Enterprises from 2014 to 2018. Descriptive statistics from the research data are as follows:

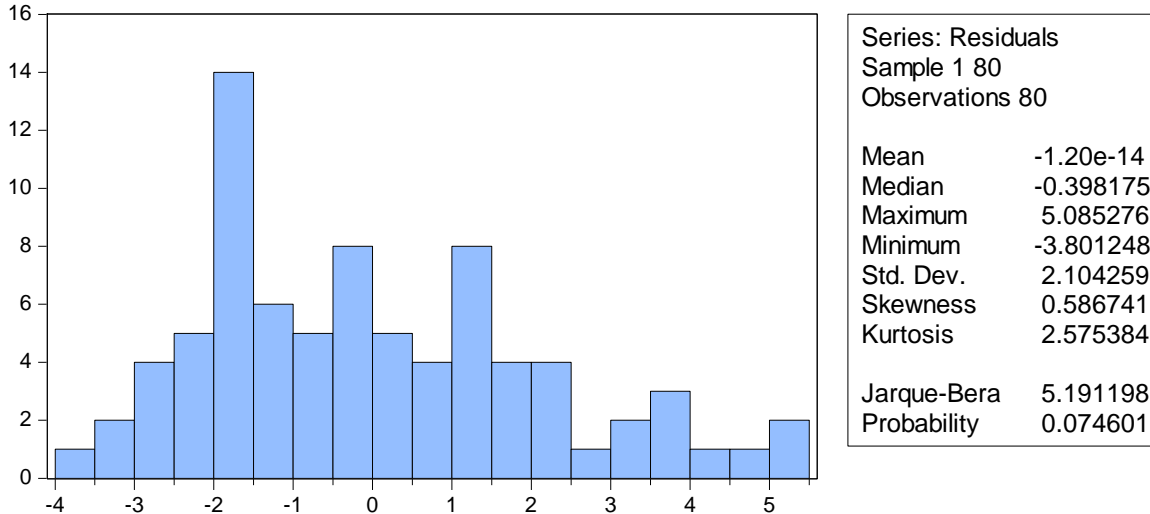
**Table 2: Descriptive Statistics**

	Y	C	KPKU	CG	KPKU*CG
Mean	7.844708	1.000000	86.54663	87.76475	7617.904
Median	7.513110	1.000000	90.50000	87.50000	7926.290
Maximum	13.19492	1.000000	120.0000	96.19000	11280.00
Minimum	3.583519	1.000000	50.00000	77.00000	4200.000
Std. Dev.	2.323273	0.000000	15.34021	4.485845	1498.426
Skewness	0.367557	NA	-0.761947	-0.241009	-0.645440
Kurtosis	2.285796	NA	3.126886	2.384697	2.901933
Jarque-Bera	3.501596	NA	7.794511	2.036468	5.586627
Probability	0.173635	NA	0.020298	0.361232	0.061218
Sum	627.5767	80.00000	6923.730	7021.180	609432.3
Sum Sq. Dev.	426.4104	0.000000	18590.45	1589.701	1.77E+08
Observations	80	80	80	80	80

### Classic Assumption Test

For the data collected, the classic assumption test has been carried out. Data normality test shows the following results:

**Table 3: Classic Assumption Test**



Kurtosis 2,575 <3. Normal. This means that the data is not too sharp. Skewness 0.586 <3. This means that the data is not too left or right. Thus the normality test results show that the data distribution is normal.

Heterokedastisitas test with eviews 8 program shows the following results:

Heteroskedasticity Test: Breusch-Pagan-Godfrey

**Table 4 : Heteroskedasticity Test; Breusch-Pagan-Godfrey**

F-statistic	1.104346	Prob. F(3,76)	0.3527
Obs*R-squared	3.341734	Prob. Chi-Square(3)	0.3419
Scaled explained SS	2.375611	Prob. Chi-Square(3)	0.4982

Test Equation:  
Dependent Variable: RESID^2  
Method: Least Squares  
Date: 02/04/20 Time: 14:16  
Sample: 1 80  
Included observations: 80

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-7.572201	69.81545	-0.108460	0.9139
KPKU	0.030168	0.786459	0.038359	0.9695
CG	0.079082	0.813467	0.097216	0.9228
KPKU*CG	0.000314	0.009116	0.034461	0.9726
R-squared	0.041772	Mean dependent var		4.372556
Adjusted R-squared	0.003947	S.D. dependent var		5.522808
S.E. of regression	5.511899	Akaike info criterion		6.300402
Sum squared resid	2308.958	Schwarz criterion		6.419503
Log likelihood	-248.0161	Hannan-Quinn criter.		6.348153
F-statistic	1.104346	Durbin-Watson stat		0.877466
Prob(F-statistic)	0.352685			

Source: Data Analysis

The prob chi square of Obs \* R-squared shows a significance of 0.3419 > 0.05. Not significant. This means that heterokedasticity does not occur in the research model.

Multicollinearity and serial correlation tests have also been performed on the data collected. The research data have passed the classical assumption test.



**Hypothesis test**

Testing of the research hypothesis shows the following results:

**Table 6: Regression Results**

No.	Notation	Standard Error	Koef.	T- stat	Sig.
1	KPKU (X1)	0.306	-0.891	-2.913	0.0047
2	CG (X2)	0.059	0.150	2.529	0.0135
3	CG Moderation on the Effect of KPKU on SOE Performance	0.003	0.009	2.801	0.0064
R Square		0,180	F- Statistic		5.547
Adjusted R Squared		0,150	Prob (F-Stat)		0.001
Dependen Variable: Y (Company Performance)			IndependenVariable:		
			<ul style="list-style-type: none"> <li>• Superior Performance Assessment Criteria (X1)</li> <li>• Corporate Governance (X2)</li> <li>• Moderation of Governance on KPKU's Influence (X1X2).</li> </ul>		

Adjusted R squared 15%. This means that the research model is quite fit for forecasting and decision making.

The F test showed a Prob (F-Stat) of 0.001 <0.05. Significant. This means that the Superior Performance Assessment Criteria (KPKU) system together with its moderation by corporate governance has a significant effect on company performance. Means the influence of independent variables on the dependent variable is significant and the research is feasible to proceed.

Individual t test results for the KPKU variable show that the influence of the KPKU variable (Superior Performance Assessment Criteria) on the performance of BUMNs significance t 0.0047 <0.005. Significant. This means that KPKU has a significant effect on BUMN performance. But the coefficient - 0.891 (negative). The implementation of the KPKU performance management system has a negative effect on BUMN performance. Means hypothesis 1 is not proven.

Individual t test results of governance variables (CG) show that the influence of governance variables (CG) on the performance of SOEs has a significance of 0.0135 <0.05. Significant. This means that governance affects the performance of SOEs. It means that hypothesis 2 is proven.

Individual test results t moderating governance variables on the influence of KPKU on the performance of SOEs the significance of 0.0064 <0.05. Significant. This means that SOE governance is proven to strengthen the influence of KPKU on SOE performance. It means that hypothesis 3 is proven.

**DISCUSSION RESULT**

Performance management system Superior Performance Assessment Criteria have a significant negative effect on BUMN performance. Means that the more comprehensive the implementation of the KPKU performance management system, will further reduce the performance of BUMN. KPKU is a performance management system. The aim is to improve the performance of SOE organizations. KPKU is the application of MBCfPE (Malcolm Baldrige Criteria for Performance Excellence) performance management system theory. The MBCfPE's detailed objectives are to improve performance, help provide direction, prepare overall planning, assess progress toward world-class companies, find out what areas need to be improved, determine the strengths they have, and obtain awards. The application of this system should be able to improve BUMN performance. The criteria at Malcolm Baldrige are related to each other and can increase over time, leading to maturity and continuous improvement.

Although Baldrige's criteria are very sophisticated, this system consists of many criteria, and requires special technical skills to be able to implement them. The skills needed, for example, understand Baldrige's concept, ability to provide direction, ability to plan, ability to map fields that need to be improved, evaluate, and ability in various disciplines such as marketing and public service. Thus many dissemination activities such as seminars and workshops are needed, which require a lot of funds.

The application of these criteria also requires a lot of costs. Customer satisfaction surveys, for example, require survey fees for at least 2 (two) times in 1 (one) year for the purposes of semester surveys. Employee satisfaction surveys also require a separate fee. In some SOEs the survey on customer satisfaction and surveys on employee satisfaction are contracted out to consultants, resulting in consultant costs.

SOE governance is proven to strengthen the influence of KPKU on SOE performance so that it has a significant positive effect on SOE profits.

Corporate governance is proven to have a significant effect on SOE performance. Governance is a commitment and rules in the company, which are applied in the daily operations of the company. An example of a company's commitment to implementing governance is the existence of directors' policies in the area of governance. Commitments are spelled out in the rules of the game such as code of conduct, code of ethics, internal audit charters, and board manuals. These rules basically regulate the working procedures of the relationship between the owner as the principal and the company management as an agent. The rules of the game governance try to minimize the gap of interests between company owners and company management. Good governance will encourage company performance in the form of higher financial performance and a better image. Without being based on

good governance, the KPKU performance management system has proven to have a significant negative effect on SOE performance. Thus before applying the KPKU, it must first build and evaluate its governance.

The results of this study are in line with the results of Al Haddad et. al (2011), Todorovic (2013), Aggarwal (2013), Pillai and Al Malkawi (2017), and Ararat, Black, B. Burcin (2016). With good governance that must be used as an operational basis for SOEs according to Decree of the Ministry of State-Owned Enterprises Number: PER - 01 / MBU / 2011 Regarding the Implementation of Good Corporate Governance in State-Owned Enterprises, the KPKU will be able to achieve its objectives to encourage SOE performance. In SOE with good governance, KPKU will run as it should. In SOEs with good governance there are capable and ethical human resources and other resources that are sufficient to implement the framework of the Superior Performance Assessment Criteria (KPKU).

## CONCLUSION, IMPLICATIONS, AND SUGGESTIONS

### Conclusion

The Government has launched the implementation of a Performance Management System based on Malcolm Baldrige Criteria for Performance Excellence since 2013, known as the Superior Performance Assessment Criteria (KPKU). But it has not been able to support whether the KPKU system management is supported by a State-Owned Enterprise. The purpose of this study is to study the planning of the implementation of the KPKU management system on BUMN performance, moderated by SOE governance. This research uses quantitative research methods, with the ordinary least squares. The population is Indonesian State-Owned Enterprises. The sample selection is done purposively. A total of 16 (sixteen) State-Owned Enterprises were sampled, with 5 (five) years of observation. The results showed that the KPKU performance management system had a significant negative effect on SOE performance (hypothesis 1 was not proven), and governance arrangements on the KPKU regulation on SOE performance were significantly positive (hypothesis 2 was proven).

### Implications

The implication of the results of this study is that to be able to implement the KPKU system well in an SOE, the SOE must first develop its governance so that good corporate governance is built.

### Suggestions

Based on the above conclusions, it is recommended that the Ministry of SOEs:

1. The Ministry of SOE makes it easier to regulate the KPKU and increases its socialization with SOEs. The socialization was carried out directly and indirectly. Direct socialization, for example, by conducting seminars or workshops. Indirect socialization, for example with circulars, brochures, and writings in magazines.
2. The Ministry of SOE should continuously develop SOE governance and evaluate its implementation. Based on adequate governance, the implementation of the KPKU system can achieve its goal of improving SOE performance.

The next researcher should conduct research on the influence of KPKU to encourage SOE performance by using a mixed method.

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