



## Pharmaceutical State-Owned Enterprises Holding Formation Performance Assessment

Indah Darapuspa<sup>1</sup>, Subiakto Soekarno<sup>2</sup>

<sup>1,2</sup>School of Business and Management, Institut Teknologi Bandung, Indonesia

**ABSTRACT:** Along with being a business focused on making a profit, State-Owned Enterprises (SOE) also have additional responsibilities to assist national economic progress and engage in accelerated development. There are many tactics that can be used to improve SOE performance, such as restructuring by creating a SOE holding. So that the management could operate as effectively as possible, several SOEs that were active in the same industry were reorganized into holding corporations. The goal of this study is to assess and examine the financial performance of SOE pharmaceutical firms using financial ratio analysis and SOE Financial Scoring of Healthiness level that include PT Bio Farma (BIOF), PT Kimia Farma (KAEF), PT Indofarma (INAF) and as Consolidation basis before and after restructuring through the establishment of a holding in 2017-2022. Calculations were also carried out employing the paired t-test statistical technique during the time prior to holding in 2017-2019 and after holding in 2020-2022 to determine significant differences. The findings show that the financial ratios of pharmaceutical SOEs during the period before and after the holding formation in 2017-2022 mostly are deteriorating and the healthiness level from healthy become less healthy. However, using paired t-test, the holding formation has no significant influence on financial performance profitability, leverage, or liquidity when it be analysed for each SOE. However, when viewed as a consolidation basis, the ROI before and after the holding configuration was significantly different.

**KEYWORDS:** Financial ratios, healthiness scoring, pharmaceutical SOE, paired t-test.

### INTRODUCTION

SOEs have a role in supporting the national economy through dividends, corporate tax deposits, operating expenses, and capital expenditure. SOE profits or called SOE dividends, the government's share is one source of PNPB. The objectives of establishment of SOEs are: (1) Contributed to the growth of the national economy in particular, state revenue, (2) Maximization of profitability, (3) Providing benefits for the public throughout the form of superior and appropriate commodities and services to fulfil people's needs, (4) Pioneering economic activity that has not previously been carried out by private companies or unions, (5) Participate actively in delivering support as well as assistance to group enterprises', struggling markets, businesses, and society.

To improve efficiency of state-owned enterprises and boost their value, efforts and initiatives are having to be undertaken to improve the performance of SOEs. There are several approaches that may be taken to improve the performance of SOEs, such as through privatization, restructuring, and profitability.

Currently, the government is making the restructuring of SOEs its highest priority. The key to SOE restructuring's success is how the government deterministically chooses the most appropriate approach for achieving results, including strengthening the chain of activities to create a growth in firm value and enforcing efficiency control policies. Look at the restructuring strategies used in different nations. These strategies include takeover mergers, acquisitions, initial public offering (IPO), sale of shares to strategy partner, the sale of shares to management managers (MBO), management contracts, establishment of holding companies, and other strategic alliances [1].

The term holding is equivalent to corporate and parent holding company is formed through a merger process several subsidiaries to later join the company parent [2]. The formation of SOE Holding is a strategic plan for managing SOE including its children, grandchildren, and great-grandchildren to continue to focus on the core business, so that it is intended that this will improve SOE performance and foster a more attractive business environment in the private sector. The main objective is rightsizing SOEs, which means reforming SOEs through finer visualization and reorganizing or consolidating to reach a more desirable number and scale for SOE business [3].



The general objectives of forming a holding include increasing the company's market value creation, creating flexibility for holding subsidiaries in carrying out corporate actions, increasing competitive advantage because it will provide a more economic focus and business scale and be able to create corporate leverage, making SOEs bigger, stronger and agile toward the greatest possible wellbeing of society, the implementation of policy discussions for business development is only carried out at the parent holding level, and strengthen the synergy and strategic role of SOEs in supporting Government programs to achieve national goals.

Regarding the financial aspect, restructuring may improve the capital structure, consolidating assets, debt, and overall capital to increase leverage capacity, reducing the cost of capital because the credit rating in general is getting better and may create financial independence for adequate funding without depending on the state budget.

## BUSINESS ISSUE

As Agents of Development or at the forefront of government initiatives, State-Owned Enterprises (SOE) are present in society with a significant role, in terms of state of revenue that affect the. Aside from being an agent of development, which is an extension of the government, SOEs also have a responsibility to the state to ensure that their companies can increase or maintain market share and a positive financial position (profitable business/value creator) and have sustainable long-term planning to address the world. increasingly competitive business (sustainable business).

State revenue in the State Revenue and Expenditure Budget (APBN) consists of tax revenue, non-tax state revenue (PNBP), and grant receipt. PNBP consists of revenue from natural resources, the government's share of the profits of State-Owned Enterprises (SOE), other PNBP, and Agency Revenue Public Service (BLU). One of the sources of PNBP comes from government revenue from shares, SOE profits or called SOE dividends are the government's share.

**Table 1.** Target and Realization of Dividend Receipt from SOEs

Description	2017	2018	2019	2020	2021
Target	41	44,7	45,6	65	26,13
Realization	43,9	45,06	80,73	66,08	30,5
Attainment (%)	107,1	100,8	177	101,66	116,71

**Source:** Processed by author from LKPP audited (2017 to 2021) in (trillion Rp)

Related to SOE as one of the state revenues, in 2021 income from Separated State Assets or abbreviated as KND which consists of dividend income originating from the Government's share of profits SOEs and other KND revenues were recorded at IDR 30.05 trillion or decreased by IDR 35.58 trillion from 2020 (more than 50% decrease). In 2020, the KND were recorded at IDR 66.08 trillion or decreased by IDR 14.65 trillion from 2019 (about 18% decrease). Decrease in 2020 and 2021 due to the achievement of the realization of the profit share has decreased as a result the performance of SOEs in general has decreased.

The state-owned pharmaceutical holdings, estimate that the company's net profit until the end of 2022 has shrunk sharply compared to last year. This is because revenue from products related to COVID-19 has decreased considerably as the pandemic has slumped. Based on the value-increasing theory, mergers are carried out to produce synergies. The government formed a SOE holding with the aim that SOE engaged in the same business sector can synergize to achieve optimal profits.

The government is currently considering establishing SOE holdings in other sectors. The purpose of this research was to examine at the influence of holding formation on the financial performance of pharmaceutical SOEs in Indonesia. To the best of the author's knowledge, research on assessment of SOE holding performance relatively limited.

## RESEARCH QUESTION

This research aims to do performance assessment of SOE holding formation. The research questions are defined as: (1)How does the financial performance of pharmaceutical state-owned enterprises during the period before and after the holding formation in 2017-2022?; (2)How significant was the different in financial ratios of pharmaceutical state-owned enterprises between the period before the holding formation in 2017-2019 and after the holding formation in 2020-2022 using the paired t-test approach?; (3)To what extent do external factors influence the restructuring of SOEs and the formation of SOE holdings?



**RESEARCH OBJECTIVES**

Pursuant to the above-mentioned, the objectives of this study are: (1)Analysing the financial performance of pharmaceutical state-owned enterprises during the time before holding formation and after the holding formation in 2017-2022; considering the covid 19 pandemic also occurred during the holding formation using financial ratios; (2)To assess the significance of differences in financial ratios throughout pharmaceutical state-owned enterprises using profitability, liquidity, activity, and leverage ratios during the time before holding formation and after the holding formation in 2017-2022; (3)Assessing the impact in external factors on SOE restructuring.

**CONCEPTUAL FRAMEWORK**



Figure 1. Conceptual Framework by author

Figure 1 demonstrates a conceptual framework for creating an analysis of this study. In structural form, a conceptual framework describes the research approach and the relationship between the concept, empirical study.

**METHODOLOGY**

This study employed several methods for a quantitative data analysis. The author uses financial ratio analysis, SOE Scoring, paired t-test, and PEST analysis. Financial ratio analysis is a frequently used approach for evaluating a company's financial performance by calculating profitability, liquidity, activity/operational efficiency, and leverage ratios. In this study, the FRA technique will be calculated using the decree of the Ministry of SOE No. KEP-100/MBU/2002, which includes eight ratios such as cash ratio, current ratio, collection period, inventory turnover, total asset turnover, total equity to total asset, return on equity, and return on investment. These ratios will be utilized not only to analyse the company's financial performance, but also as the foundation for SOE healthiness level grading and sample data for the statistical method of paired t-test.

The corporate performance in the SOE Scoring Framework for Non-Infrastructure SOE is based on three aspects: financial who contributes for 70% of the total score, operational and administrative, which each contribute 15% of the overall score. In terms of



finance, the Ministry of State-Owned Enterprises has authorized many financial parameters that are seen to be relevant in analysing a company's financial success.

There are eight financial ratios, each with its own weight that contributes to the total score (Penilaian Tingkat Kesehatan Badan Usaha Milik Negara).

**Table 2.** Financial Ratios Weight and Formula

Financial Indicators	Weight	Formula
Return on Equity (ROE)	20	Net Income / Equity
Return on Investment (ROI)	15	EBITDA / (Total Asset – Net Fixed Asset)
Cash Ratio	5	Cash / Current Liability
Current Ratio	5	Current Asset / Current Liability
Collection Period	5	Account Receivable x 365 / Revenue
Inventory Turnover	5	Inventory x365 / Revenue
Total Asset Turnover	5	Revenue / Asset
Total Equity/Total Asset	10	Equity / Asset
Total Score	70	(Total score is represented as TS)

**Source:** the decree of Ministry of SOE No. KEP-100/MBU/2002 [4]

Since the author only wants to do a measurement on the financial aspect, the score for health classification readjusted as displayed below and the performance of a corporation may be divided into three categories using the SOE Financial Scoring Framework: healthy, less healthy, and unhealthy.

**Table 3.** Health Indicator of SOE using Financial Performance

Rating	Scoring	Adjusted Score	Classification
AAA	TS >95	TS >66.5	Healthy
AA	80 < TS ≤ 95	56 < TS ≤ 66.5	
A	65 < TS ≤ 80	45.5 < TS ≤ 56	
BBB	50 < TS ≤ 65	35 < TS ≤ 45.5	Less Healthy
BB	40 < TS ≤ 50	28 < TS ≤ 35	
B	30 < TS ≤ 40	21 < TS ≤ 28	
CCC	20 < TS ≤ 30	14 < TS ≤ 21	Unhealthy
CC	10 < TS ≤ 20	7 < TS ≤ 14	
C	TS ≤ 10	TS ≤ 7	

**Source:** the decree of Ministry of SOE No. KEP-100/MBU/2002 (SOE, 2002) (Penilaian Tingkat Kesehatan Badan Usaha Milik Negara)

A paired t-test is a standard statistical approach used to compare the pre- and post-interference situations with identical-related items. To employ this statistical approach, the samples must have two matching data pairs, two time points (before and after), and two normally distributed measures that must fulfil certain requirements. There were two samples of important data from the examination of financial ratios and holding formation intervention situation in 2020. The circumstances before and after the program were compared, and the differences in significance were calculated. The hypothesis used was descriptive hypothesis. There were two choices possibly for each ratio made by the author according to the basis of the theory used. They are:

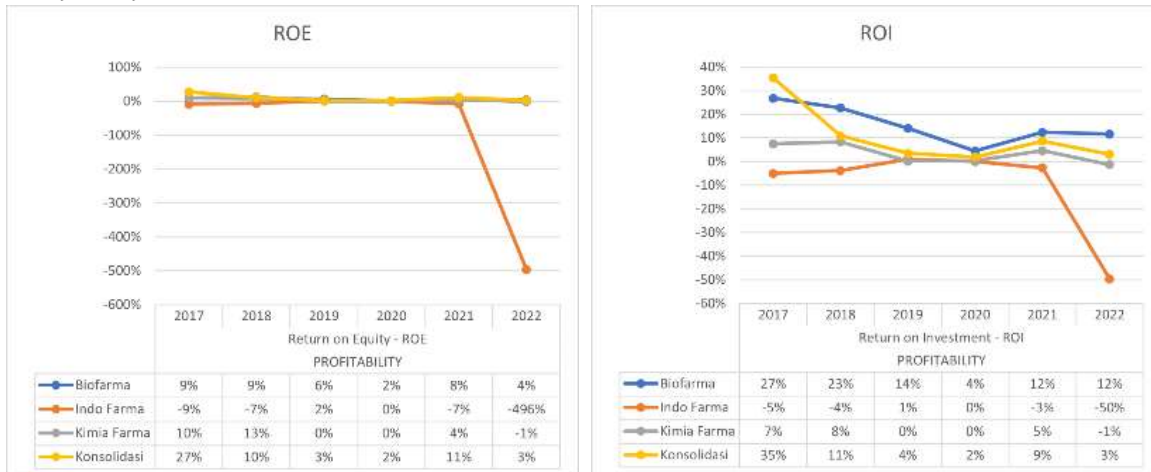
- H0 = There is no significant difference in Financial Performance in the period of before and after the holding formation.



- H1 = There is a significant difference in Financial Performance in the period of before and after the holding formation.

**RESULTS AND ANALYSIS**

**A. Profitability Analysis**



**Figure 2 & Figure 3.** Return on Equity and Return on Investment

Source: Processed by author

Figure 2 shows a comparison of the percentage value of return in equity (ROE) of the three companies and the consolidation from the period before and after the holding formation in 2017-2022. Return on equity is the comparison of net income and equity of the company. Return on equity showed different appearances for four lines of the chart. Indofarma underwent a dramatic percentage decrease before and until the holding formation from 2017-2022. As of the end of 2022, the Return on Equity (ROE) ratio is recorded at -496.23% or decreased compared to 2021 which was recorded at -7.39%. The decrease mainly came from unappropriated retained earnings as an effect of the Indofarma's 2022 loss (decrease in net income). For Bio Farma, Kimia Farma and on a consolidated basis, did not fluctuate significantly, but tend to decrease after the holding formation. From figure 3, Return on Investment shows a different appearance for 4-line chart. Indofarma and Kimia Farma showed a percentage increase from 2017 to 2018 but then it drops steadily until 2022. Indofarma experienced a dramatic decrease of 47% from 2021 to 2022. Meanwhile, Bio Farma had a percentage decline from 2017 to 2020 and then rises in 2021 and stabilizes in 2022. When viewed on a consolidated basis, it drops steadily until 2020, then rises in 2021 and then drops again in 2022. In brief, there are signs of different conditions in the three SOEs due to the holding formation, where they experienced a decline ROE and ROI after the holding formation when compared to before the holding formation.

**B. Liquidity Analysis**



**Figure 4, Figure 5, and Figure 6.** Cash Ratio, Current Ratio and Collection Period

Source: Processed by author



Figure 4 shows that cash ratio fluctuated for all the SOE from 2017 to 2022. Bio Farma fluctuated from 2017 to 2022 and experienced a significant increase in 2022. Indofarma decline and then rise again in the following year, and so on but not dramatically. Meanwhile, Kimia Farma continues to fall until 2021 and then rises again in 2022. On a consolidated basis, the cash ratio continues to increase except it decreased in 2019. In general, the average cash ratio strengthens after holding formation. However, it's still not good enough to be considered capable of paying short-term debt with cash owned as the cash ratio were below 1 (100%). Figure 5 shows that the current ratio of Bio Farma, Indofarma, Kimia Farma and Consolidation. Bio Farma experienced decrease in the current ratio from 2017 till 2021 and then rose again in 2022. Kimia Farma similar to Bio Farma, it experienced decline from 2017 to 2020 and rise again in 2021 and 2022. While Indofarma increased before the holding formation and decreased since the holding formation. From the table in Figure 5, it shows that Bio Farma was able to pay all of its short-term debts with its current assets, so there is little possibility of the risk of delay as the current ratio is about 1.5 and up. Meanwhile, Indofarma and Kimia Farma have a current ratio that is not good as it below 1.5. Compared to the strengthening average cash ratio, the current ratio tends to weaken for all SOEs. Figure 6 depicts the collection period, which represents the pharmaceutical SOEs' capacity to recover receivables accounts or rely on credit policies. This ratio differs from the previous one in that the greater the percentage numbers, the better. On the other hand, the smaller the collecting period's percentage values, the better. The lower figures demonstrated the firms' ability to collect fast. As a result, the lower the number, the faster the corporation may receive. Bio Farma collection period decrease since the period of holding formation, from 34 days in 2020 to 11 days in 2022. Indofarma fluctuated during 2017 and 2022 but the highest value was 119 days in 2020, right after the holding formation. Kimia Farma also fluctuated. As consolidation basis, the pharmaceutical SOEs tend to have the smaller value after the holding formation. Except for Indofarma, this figure clearly showed that the average number of days necessary for collection was shorter after the holding formation than before the holding formation. The number of days in this ratio indicated how long it would take the firm to receive payment on receivable accounts. Companies favoured fewer days because they could utilize them more efficiently to pay off short-term debt. In brief, the liquidity ratio of pharmaceutical SOEs has improved after holding formation, given the combined amount of cash, assets, and debt.

C. Activity Ratio



Figure 7 & Figure 8. Inventory Turnover and Total Asset Turnover

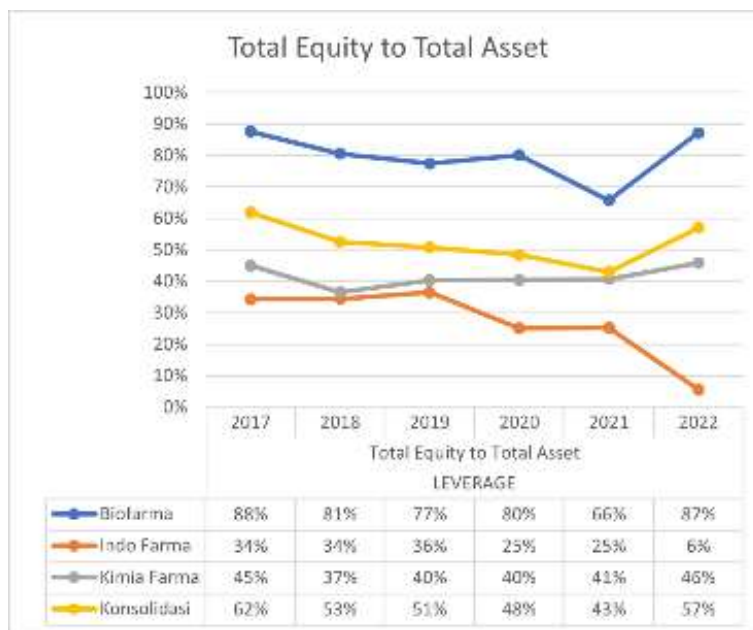
Source: Processed by author

Figure 7 depicts the inventory turnover of pharmaceutical SOEs as a ratio of total inventory to total sales in days. As a starting point for holding creation, pharmaceutical SOEs produced somewhat balanced outcomes with a trend to decline in number after 2020. Bio Farma increased significantly from 171 days in 2019 to 258 days in 2020, but then decreased considerably in 2021 and 2022, becoming 71 days and 72 days, respectively. The other SOE's patterns were rather steady, despite variations in increase or reduction in days. The differences, however, were not statistically significant. When compared to the average of pharmaceutical SOEs, the holding formation had no significant effect on the performance of the company's activities in terms of inventory turnover. Total asset turnover is another ratio used to evaluate activity ratios. This ratio is used to assess a company's capacity to utilise its assets to generate revenue. Figure 8 shows the total asset turnover of pharmaceutical SOEs before and after the holding creation for six-year periods. The result was an increase in the percentages of virtually all of the firms studied. However, Bio Farma experienced a



decrease in 2020 when the holding formation started. The overall value was generally below the standard score of 100% except for Kimia Farma in 2020 and 2021. The value under 100% indicated that the company couldn't well managed their assets to produce sales.

**D. Leverage Ratio**



**Figure 9.** Total Equity to Total Asset

Source: Processed by author

Total Equity to Total Assets, as stated in Table IV.8, is used to assess solvency performance. Overall, the results reveal that all SOE are in a stable state. The shifts in the value of the pharmaceutical SOEs studied resulted in various percentages, although the ups and downs were not overly spectacular. Indofarma's movements were extreme; it had a rapid decrease from 2019 to 2022, hitting a low of 6% in 2022. This ratio is used to assess a company's capacity to meet all its commitments, both short and long term, if it is liquidated (liquidated). The higher the ratio, the more liabilities the firm has.

**1. Health Assessment using SOE Scoring**

The health evaluation of the firm is based on SOE Minister's directive No. KEP-100 / MBU / 2002 to strengthen the examination of the differences between the years before and after the holding formation. The overall score will be calculated using eight financial parameters, and the grade and category of the company's health will be decided using the score.

**Table 4.** Assessment Score of PT Bio Farma

PT Bio Farma					
Period	Year	Total Score	Adjusting Score	Rating	Category
Before	2017	58	56 < TS ≤ 66.5	AA	Healthy
	2018	57	56 < TS ≤ 66.5	AA	Healthy
	2019	47.5	45.5 < TS ≤ 56	A	Healthy
After	2020	32.7	28 < TS ≤ 35	BB	Less Healthy
	2021	53.5	45.5 < TS ≤ 56	A	Healthy
	2022	43.5	35 < TS ≤ 45.5	BBB	Less Healthy

Source: Author analysis, 2023



**Table 5.** Assessment Score of PT Kimia Farma

PT Kimia Farma					
Period	Year	Total Score	Adjusting Score	Rating	Category
Before	2017	52	45.5 < TS ≤ 56	A	Healthy
	2018	54	45.5 < TS ≤ 56	A	Healthy
	2019	29	28 < TS ≤ 35	BB	Less Healthy
After	2020	28	21 < TS ≤ 28	B	Less Healthy
	2021	37.5	35 < TS ≤ 45.5	BBB	Less Healthy
	2022	27.5	21 < TS ≤ 28	B	Less Healthy

Source: Author analysis, 2023

**Table 6.** Assessment Score of PT Bio Farma

PT Indofarma					
Period	Year	Total Score	Adjusting Score	Rating	Category
Before	2017	31.5	28 < TS ≤ 35	BB	Less Healthy
	2018	31.5	28 < TS ≤ 35	BB	Less Healthy
	2019	39	35 < TS ≤ 45.5	BBB	Less Healthy
After	2020	32.25	28 < TS ≤ 35	BB	Less Healthy
	2021	33.25	28 < TS ≤ 35	BB	Less Healthy
	2022	21.5	21 < TS ≤ 28	B	Less Healthy

Source: Author analysis, 2023

**Table 7.** Assessment Score of PT Bio Farma

Consolidation – All Pharmaceutical SOE					
Period	Year	Total Score	Adjusting Score	Rating	Category
Before	2017	65	56 < TS ≤ 66.5	AA	Healthy
	2018	53.5	45.5 < TS ≤ 56	A	Healthy
	2019	37	35 < TS ≤ 45.5	BBB	Less Healthy
After	2020	37.5	35 < TS ≤ 45.5	BBB	Less Healthy
	2021	55	45.5 < TS ≤ 56	A	Healthy
	2022	40	35 < TS ≤ 45.5	BBB	Less Healthy

Source: Author analysis, 2023

Table 4-7 show the level of healthiness of PT Bio Farma, PT Kimia Farma, PT Indofarma and when viewed as consolidation basis with the comparison between the period before and after the holding formation. There were substantial differences in the total score of the company before and after the holding was started. Before the holding, PT Bio Farma, PT Kimia Farma and Consolidation had the rating of A, and became B after the holding while PT Indofarma stabilized at B rating. It had a significant impact on the company's health level by seeing a declining development in its rating and health category. Before holding, the company is in the healthy category. While in the period after holding, the average or even all companies are almost in the less healthy category. Therefore, it can be said that the holding formation affecting the rating and category.

**2. Paired t-test**

As a correlation with the pre- and post-study methodologies, these ratios were presented and separated into two periods, before and after. Mean values were used to explore one of two eras, before or after, with greater values to better understand their influence.





Alfa used 0.05 values, with a 95% assurance on the outcomes. If the p-value (significance value) is less than or equal to 0.05 (= 0.05), H0 is rejected and H1 accepted. This means that there is a significant difference in the average of each financial performance in biopharma companies before and after holding. On the other hand, if the p-value is higher than alpha (>0.05), the H0 is accepted and H1 is rejected. This means that there is no significant difference in the average of each financial performance in biopharma companies before and after holding.

**Table 8.** Result of Paired t-test of all pharmaceutical SOEs

All pharmaceutical SOE					
Description	Period	Mean	p-value (Sig)	Alpha	Decision
Return on Equity - ROE	before	0.0614	0.332	0.05	H0 is accepted
	after	-0.3927			
Return on Investment - ROI	before	0.1014	0.019	0.05	H0 is rejected
	after	-0.0054			
Current Ratio	before	1.8175	0.070	0.05	H0 is accepted
	after	1.5118			
Cash Ratio	before	0.3968	0.451	0.05	H0 is accepted
	after	0.5132			
Collection Period (Days)	before	57.6383	0.564	0.05	H0 is accepted
	after	49.6946			
Inventory Turnover	Before	92.4419	0.623	0.05	H0 is accepted
	After	93.2383			
Total Asset Turnover	before	0.6937	0.786	0.05	H0 is accepted
	after	0.7071			
Total Equity to Total Asset	before	0.5319	0.203	0.05	H0 is accepted
	after	0.4705			

Source: Author analysis, 2023

From the table 8, it can be seen that there is a change for each financial ratio of all pharmaceutical SOEs. For example, for return on equity, the test results show descriptively that there is a difference in the average ROE before holding and after holding with the average ROE before holding of 0.0614, this value is bigger when compared to the average ROE results of Bio Farma after holding decreased to -0.3927. This result means less efficient management of equity to generate profits. Furthermore, to prove the difference is real (significant) or not, then the hypothesis is tested with paired samples test. From the same table, a significance value (sig.) of 0.332 is obtained for the ROE, which is greater than the alpha of 0.05, causing H0 to be accepted and H1 to be rejected. It means that using ROE, there is no significant difference in financial performance in the period of before and after the holding formation.

Overall, from the pharmaceutical SOE paired samples test, the Return on Equity, Cash Ratio, Current Ratio, Collection Period, Inventory Turnover, Total Asset Turnover, and Total Equity to Total Asset obtained significant values of paired t-test > 0.05 and thus, H0 is accepted for all those ratios. However, for Return on Investment, the result of the t-test give significant values was 0.019 which is < 0.05 thus caused H0 to be rejected and H1 to be accepted.

It can be concluded that there is no significant difference for financial performance in terms of Return on Equity, Cash Ratio, Current Ratio, Collection Period, Inventory Turnover, Total Asset Turnover, and Total Equity to Total Asset of all pharmaceutical SOE before and after holding. But there was significant difference for the Return on Investment that indicate the profitability may affected by the holding formation.



## BUSINESS SOLUTION

In establishing a SOE holding, the Government needs to take prudent steps by conducting a comprehensive study that considers macro and microeconomic variables, as well as involving many parties in the decision-making process. It can be helpful to manage SOEs to be more effective and efficient. Forming a successful state-owned enterprise (SOE) holding requires careful planning, strategic thinking, and effective implementation. While strategies may vary depending on the specific circumstances and goals of the government. It's important to note that the success of an SOE holding formation depends on various internal and external factors. Due diligence and change management implementation are needed to make a right decision in forming a holding.

### A. Due diligence

Readiness is required from the party participating in the holding; therefore, it is necessary to carry out a due diligence. Performing due diligence is a crucial step in the formation of a state-owned enterprise (SOE) holding as it useful for basis in determining the strategic steps taken by the holding company. It involves conducting a comprehensive assessment and analysis of the entities that will be part of the holding that will be useful for the controlling shareholders. It is also an important step to identify the problems being faced by each SOE holding member and potential problems or risks that may arise in the future as well as identify strategic steps to mitigate or reduce these risks. Aspects that must exist in the implementation of Due Diligence include:

1. Financial performance of the companies involved in the last certain years as It represents the organization's capacity to manage and allocate resources. Evaluate the financial health and performance of each SOE that will be included in the holding. Review financial statements, including balance sheets, income statements, and cash flow statements, to assess profitability, liquidity, solvency, and overall financial stability. Identify any potential financial risks or liabilities.
2. Operational Assessment: Evaluate the operational aspects of the SOEs. Review their production processes, supply chains, technology infrastructure, and operational efficiency. Identify any operational challenges, bottlenecks, or opportunities for improvement that could impact the performance of the holding.
3. Human Resources and Talent Assessment: Evaluate the capabilities and expertise of the management teams and employees within the SOEs. Assess their skills, experience, and qualifications. Identify any gaps in talent and develop plans for talent development, recruitment, and retention within the holding.
4. Legal and Regulatory Compliance: Examine the legal and regulatory compliance of the SOEs. Assess their adherence to laws, regulations, permits, licenses, and contractual obligations. Identify any ongoing or potential legal disputes, litigation, or regulatory issues that could pose risks to holding. Review the company's contractual relationship for marketing activities, procurement, joint operations, and asset utilization. Joint venture agreements or other business collaborations with strategic partners because the existence of a joint venture or business collaboration allows companies to operate globally, and the company's finances will increase.
5. Market Analysis: Conduct a market analysis of the industries in which the SOEs operate. Assess market dynamics, competition, growth prospects, and potential risks. Analyse market share, customer base, product/service offerings, and pricing strategies. Identify any emerging market trends or disruptive factors that could impact the holding's future performance.
6. Synergy Evaluation: Assess the potential synergies and benefits that can be derived from integrating the SOEs into a holding structure. Identify opportunities for cost savings, economies of scale, resource sharing, knowledge transfer, and enhanced market positioning. Evaluate the compatibility of business models, cultures, and strategies to ensure effective integration.
7. Risk Assessment: Identify and evaluate the risks associated with the SOEs and the holding structure. Consider risks related to market volatility, regulatory changes, political instability, environmental factors, cybersecurity, and other relevant risks. To handle possible risks and obstacles, develop risk mitigation techniques and contingency plans.
8. Stakeholder Analysis: Identify and engage with relevant stakeholders, including government entities, employees, unions, local communities, customers, and suppliers. Understand their perspectives, expectations, and concerns regarding the SOE holding formation. Incorporate stakeholder feedback and considerations into the holding's strategy and plans.
9. Corporate Governance Analysis: Evaluate the Good Corporate Governance (GCG) practices and internal control mechanisms in the SOEs. GCG or Good corporate governance is a framework and system that governs a company's management in order to provide long-term economic benefit for shareholders and stakeholders. GCG is required to foster the development of a market that is efficient, transparent, and compliant with rules and regulations. Assess the effectiveness of board structures, decision-



making processes, risk management systems, and internal audit functions. Identify any gaps or weaknesses and develop plans for strengthening corporate governance practices within the holding.

10. Environmental, Social, and Governance (ESG) Factors: Consider the environmental, social, and governance factors associated with the SOEs and their operations. Assess their sustainability practices, social impact, and adherence to ESG principles. Incorporate ESG considerations into the holding's strategy and decision-making processes.

## ***B. Change management for transition process***

Change is something that is certain and eternal and will be carried out by every organization in Indonesia this world to maintain its existence, as a result of changing times. Implementing a change management framework is crucial when forming a state-owned enterprise (SOE) holding. It helps to navigate the transition process effectively, minimize resistance, and ensure a smooth integration. Here are the key components of a change management framework for SOE holding formation.

1. **Change Vision and Strategy Development:** Clearly define the vision and strategic objectives of the SOE holding formation. Communicate the rationale behind the change and the desired outcomes. Develop a comprehensive strategy that outlines the steps, timeline, and key milestones of the transition
2. **Change Management Team Establishment:** Assemble a dedicated team responsible for managing the change process. This team should have expertise in change management, project management, communication, and stakeholder engagement. Allow them the power and resources they need to carry out the change management strategy effectively.
3. **Stakeholder Analysis:** Identify and analyse the stakeholders impacted by the SOE holding formation. Understand their interests, concerns, and expectations. Develop a robust stakeholder engagement plan that ensures open communication, addresses concerns, and involves stakeholders in the change process. Provide regular updates and opportunities for feedback.
4. **Communication Plan:** Develop a comprehensive communication plan to keep stakeholders informed about the change. Clearly articulate the reasons for the SOE holding formation, its benefits, and how it aligns with broader government objectives. Use multiple communication channels and tailor messages to different stakeholder groups. Be transparent about the process, progress, and potential impacts.
5. **Training and Capacity Building:** Assess the skills and knowledge gaps within the SOEs and develop a training and capacity-building plan. Provide training programs and resources to enhance the capabilities of employees who will be part of the holding. Address any concerns about job security, career development, and transition support.
6. **Change Champions:** Identify change champions within the SOEs and the holding organization. These individuals should be influential and respected employees who can advocate for the change, motivate others, and address concerns. Empower them to act as change agents and provide support and guidance to their colleagues.
7. **Address Resistance and Manage Risks:** Anticipate and address potential resistance to the change. Identify the sources of resistance, such as fear of job loss or uncertainty, and develop strategies to mitigate them. Proactively manage risks associated with the change process and develop contingency plans to address any unforeseen challenges.
8. **Monitor and Evaluate Progress:** Establish mechanisms to monitor the progress of the change process and evaluate its effectiveness. Track key performance indicators and milestones to ensure the change is on track. Collect feedback from stakeholders and adjust as needed. Celebrate successes and recognize individuals and teams that contribute to the successful formation of the SOE holding.
9. **Continuous Learning and Improvement:** Foster a culture of continuous learning and improvement throughout the change process. Encourage feedback and lessons learned to refine the change management approach. Incorporate feedback into future change initiatives and share best practices within the organization.
10. **Sustain Change:** Once the SOE holding is formed, ensure that the change becomes embedded in the organizational culture and practices. Monitor the ongoing performance of the holding, address any remaining issues, and continuously communicate the benefits and achievements of the new structure

## **IMPLEMENTATION PLAN**

Following up from the previous part, this section will provide a more thorough explanation of the suggested solution implementation plan.



Table 8. Implementation Plan for Due Diligence

Activity	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Financial performance	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	
Operational Assessment	Green	Green	Green	Green	Green	Green	Green	
Human resources Assessment					Green	Green	Green	
Legal and Regulatory Compliance					Green	Green	Green	
Market Analysis						Blue	Blue	
Synergy Evaluation						Blue	Blue	
Risk Assessment						Blue	Blue	
Stakeholder Analysis							Red	Red
GCG Analysis								Orange
ESG Factors								Orange

Table 9. Implementation Plan for Change Management

Activity	Q1	Q2	Q3	Q4
Develop a Change Vision and Strategy	Orange			
Establish a Change Management Team	Orange			
Conduct Stakeholder Analysis and Engagement		Yellow		
Communication Plan		Yellow		
Training and Capacity Building			Green	
Change champion			Green	
Address Resistance and Manage Risks			Green	
Monitor and Evaluate Progress				Blue
Continuous Learning and Improvement				Blue
Sustain change				Blue

**CONCLUSION & RECOMMENDATION**

**A. Conclusion**

Based on the data analysis using financial ratio analysis and paired t-test measurement in the period of before and after the holding formation of pharmaceutical SOEs in 2020, it can be concluded that:

1. The financial performance of pharmaceutical SOEs, during the period before and after the holding formation in 2017-2022 based on eight financial ratio measurements and SOE financial healthiness scoring based on Minister Decree of SOE No. KEP-100/MBU/2002 mostly are deteriorating
2. There are no significant differences for financial performance in terms of Return on Equity, Cash Ratio, Current Ratio, Collection Period, Inventory Turnover, Total Asset Turnover, and Total Equity to Total Asset of all pharmaceutical SOE between the period before the holding formation in 2017-2019 and after the holding formation in 2020-2022. However, there was significant difference for the Return on Investment that indicate the profitability may slightly affected by the holding formation
3. The holding formation condition during 2020-2022 has affected by many external factors in the field of political, Indonesia and global economy, social culture that affected the society behaviour, and technology. The occurrence of COVID Pandemic as a force major also greatly affect the situation. PT Indofarma Tbk (INAF) reported a loss in 2022. Citing Indofarma's financial



report, which was released last weekend, the pharmaceutical issuer's net loss has skyrocketed to more than 1,000% on an annual basis. Indofarma's swelling losses were triggered by a drop in revenue. The performance of PT Kimia Farma Tbk (KAEF) in 2022 is no less bad. This loss was triggered by the decline in KAEF's net income on an annual basis. The decline in KAEF's revenue was, among other things, triggered by the decline in sales of KAEF's generic drugs in 2022. In addition, sales of ethical drugs collapsed annually. In 2022, KAEF has reduced its operating expenses compared to 2021. Operating expense efficiency is achieved by optimizing distribution costs for all products. The main reason for the increase in losses for SOE pharmaceutical is the end of the Covid-19 pandemic. Market demand for Covid-19 products has decreased and this causing revenue from products related to COVID-19 has decreased considerably as the pandemic has slumped. The increase in raw materials also contributed to negative sentiment, which eroded the profit margins of state-owned pharmaceutical companies. In addition, the weaker rupiah exchange rate also adds to the issuer's financial burden. This is because some of the raw materials for medicines come from imports. However, the holding policy can improve the liquidity performance of the pharmaceutical sector SOEs which can affect profitability, so it is advisable to continue because the formation of a SOE holding is analogous to the formation of a merger in the private sector which takes more than 3 years to see the effect.

## B. Recommendation

Based on the measurement and analysis, the author designed recommendations. The recommendations are:

### 1. Advice for SOEs and the Government

For companies that will do the holding should do good preparation before deciding to do the formation holding. Like seeing the condition of the company, both from the company's management as well as the company's financial and look at the national economic conditions whether in good or bad for the company. Because it's based the results obtained from this study, that the establishment of a holding is not shows a significant difference to the financial performance of SOE. So that the government and company management must really consider whether the formation of holding is appropriate with SOE objectives.

### 2. Advice for Investors

Investors should be more careful in addressing this establishment of a holding by the government, because not always the formation of a holding has a good impact on SOEs.

### 3. Suggestions for Further Research

For future research, performance measurement should be carried out finance with other financial ratio variables or other methods, so that can improve the quality of research results. future research should also make observations at a more extended period, either after or before the establishment of the holding, so that the research results close to real reality

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