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State-Owned Challenges: Why SOEs Can't Just Keep Coasting

- **Dual Mandate Dilemma**

  State-owned Enterprises (SOEs) operate at the intersection of public policy and commercial markets, tasked with delivering public goods while competing with private firms. This dual mandate often leads to internal inefficiencies, blurred performance metrics, and institutional confusion, particularly in sectors with mixed market structures.

- **Sector-Specific Performance Patterns**

  The analysis shows that SOEs in natural monopolies (e.g., electricity, logistics) have legitimate structural advantages and positive economic multipliers. In contrast, SOEs in competitive sectors like manufacturing or finance often underperform due to weak incentives, crowding-out effects, and soft budget constraints.

- **Institutional Quality Determines Outcomes**

  SOES contributions to economic growth are conditional on strong governance frameworks. Cross-country evidence from the OECD and World Bank confirms that countries with centralized ownership policies, clear mandates, and separation of roles (owner vs. regulator) demonstrate better SOEs performance and fiscal accountability.

- **Macroeconomic Sensitivity and Sectoral Stress**

  Regression-based stress testing reveals that SOEs profitability is highly sensitive to macroeconomic shocks. The financial and banking sectors exhibit the highest vulnerability to variables such as GDP growth, interest rates, inflation, and government bond yields, indicating systemic risk exposure.

- **Reform Must Be Differentiated and Strategic**

  Using Modified BCG Matrix, Financial Ratio Matrix, and Sectoral Multiplier Matrix analyses, SOEs are mapped into strategic quadrants that reflect their growth potential, efficiency, liquidity, and strategic values toward the society. The findings argue against blanket privatization or support policies, calling instead for selective restructuring, performance-based incentives, and differentiated capital treatment.

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State-Owned Enterprises in the Global Landscape

According to the 2024 OECD Guidelines on Corporate Governance of state-owned enterprises (SOEs), any entity recognized as a company under national law and over which the state has control or ownership is categorized as SOEs. This includes various forms of legal entities such as limited liability companies, public companies, to special legal entities formed under certain regulations, if their main activities are economic in nature.

SOEs has a strategic role such as accelerating infrastructure development, developing markets in sectors experiencing market failure, and increasing social inclusion. In the global context, SOEs no longer only act as state tools to provide public services but have evolved into major players in the world economy. The OECD report (2024) notes that SOEs now control around 25% of the world's largest revenue companies. Cumulatively, SOEs manage assets of more than USD 53.5 trillion, generate annual revenues of USD 12 trillion, and profits of USD 730 billion. This sector also absorbs labor on a large scale, with a total of more than 21 million workers globally. This fact shows that SOEs have become a very influential economic force, both in developed and developing countries.

Moreover, SOEs often operate in sectors that are categorized as natural monopolies, namely sectors where business competition is naturally limited or impractical to achieve (OECD, 2024). This is due to high barriers to entry, large capital requirements, high fixed costs, and significant economies of scale. These characteristics make these sectors structurally more efficient when run by a single entity. Real examples of this condition are network industries such as electricity supply, clean water and waste management, public transportation, and telecommunications services.

However, the role of SOEs is not limited to the natural monopoly sector alone (OECD, 2024). In many countries, SOEs are also actively competing in competitive sectors, both domestically and globally. These sectors include banking and finance, commercial transportation, manufacturing, and various other strategic industrial sectors. In this context, SOEs operate not only as public service providers, but also as economic actors oriented towards efficiency and competitiveness, although still within the framework of broader social mandates and public policies.

In developed countries, the role of SOEs has shifted from being merely public service providers to national strategic tools, addressing supply chain challenges and energy crises such as in Japan, the UK, and France. They are used to lead priority industrial projects, strengthen economic sovereignty, and support the energy transition. In the context of market structure, global SOEs

are now not only present in the natural monopoly sector but are also starting to compete in a competitive open market.

However, the effectiveness of the role of SOEs is highly dependent on the quality of governance and the institutional environment. SOEs will only contribute positively to economic growth if supported by strong institutions. In a closed and uncompetitive market structure, such as in Russia or several other developing countries, SOEs tend to worsen efficiency, especially when accompanied by political intervention and weak public oversight. Therefore, governance reform and institutional design are prerequisites for SOEs to function as development instruments without distorting market competition.

The next challenge lies in the institutional structure of SOEs management. Ideally, the state's functions as regulator, policymaker, and company owner should be clearly separated to avoid conflicts that undermine the effectiveness of SOEs governance. International best practices encourage the establishment of a special entity authorized to manage state ownership in a centralized and coordinated manner. The OECD notes that 53% of jurisdictions have now implemented a centralized ownership model—up from 41% in 2021. However, only 11% have a department, ministry, or holding company that exclusively handles SOES ownership, while another 27% still use a fragmented model across ministries, which risks inconsistent policies and weak accountability. Thus, to make SOEs a driver of inclusive growth and structural transformation, governance and institutional reform is not an option but an urgent need.

SOEs in Developing Countries: Economic, Social Instruments, and Structural Challenges

In developing countries, SOEs bear a double burden: carrying out public service functions while maintaining business sustainability. The World Bank IEG Report (2020) note that this dual mandate is often not accompanied by adequate incentives and supervision. As a result, many SOEs show weak performance, rely on state subsidies, and operate in uncompetitive markets.

In oligopolistic or monopolistic market structures—such as energy, transportation, or food security—SOEs are indeed needed to ensure the availability of services. However, without comprehensive reform, SOES intervention can close off opportunities for the private sector and hinder innovation. Grain Malunga (2018) even underlines those structural reforms in the SOES sector that do not consider local political realities can reduce the performance of strategic sectors such as mining.

On the one hand, SOEs are expected to drive economic growth and industrialization. However, on the other hand, there are concerns that state

ownership of enterprises can lead to management inefficiencies, heavy fiscal burdens, and suboptimal resource allocation. The lack of consistent and comprehensive data from various developing countries makes it difficult to empirically assess the economic impact of SOEs. However, the available data indicate that the role of SOEs in the economies of developing countries varies and is not always positively correlated with economic growth or job creation.

Cross-country correlation analysis shows that there is no consistent relationship between SOEs dominance in the economy and better economic performance. Several countries with large sta sectors have experienced slow economic growth and low investment levels. This shows that the existence of SOEs does not automatically produce the expected economic benefits. On the contrary, without good governance and operational efficiency, SOEs can become a burden on the economy. The same thing was also found in Asia from the results of the ADB study (2017). The important role of SOEs in the economic development of developing countries in Asia is undeniable, especially in large infrastructure projects and job creation. However, the performance of SOEs often lags private companies, due to corruption, poor management, and lack of technical competence. Therefore, structural reform and increased accountability are key to ensuring that SOEs truly contribute positively to economic development.

This analysis particularly answers two main research questions.

1. To what extent do SOEs contribute to economic performance and development outcomes in both competitive and non-competitive market structures?

This question emerges from the document's discussion on how SOEs operate across a wide range of market structures—from natural monopolies to competitive sectors—and whether their involvement enhances or distorts market efficiency and economic development.

2. How do macroeconomic variables influence the financial performance of SOEs across different sectors, and which sectors exhibit the highest vulnerability?

This study includes a comprehensive stress test model based on macroeconomic indicators like GDP growth, exchange rates, interest rates, and inflation. This question aligns directly with the regression-based analysis of SOES profitability under changing economic conditions.

SOEs: Common Challenges and Opportunities

Gillis' (1980) study provides a historical understanding of the dynamics of SOEs in developing countries, particularly in the context of the expansion of the state's role as a major economic actor during the two decades prior to 1980. During this period, SOEs expanded rapidly in strategic sectors such as energy, mining, and infrastructure, driven by the limited capacity of the private sector and the need to fill market gaps. In many cases, the role of SOEs even surpassed that of the private sector in terms of asset ownership, workforce, and fiscal impact—indicating the phenomenon of crowding out. The dominance of SOEs was also reinforced by monopolistic or oligopolistic market structures, particularly in capital-intensive sectors. Although these structures provided stability, the absence of competitive pressures encouraged internal inefficiencies.

Towards the end of the 1970s, SOEs' dependence on external financing increased, especially through international loans. However, low cash flows from the projects they undertook led to a surge in external debt and increased fiscal risks, especially amid global volatility. With the combination of structural inefficiency and debt burden, SOEs became a potential source of macroeconomic instability. Gillis emphasized the importance of institutional reform and a selective approach, not just privatization. SOES reform should be directed at separating social and commercial functions, implementing performance-based incentives, and increasing fiscal transparency. With the right institutional design, SOEs can continue to act as catalysts for efficient and sustainable development.

Furthermore, one of the main challenges in managing SOEs is corruption (World Bank, 2020). Corruption in SOEs has increasingly come under the spotlight in recent years, especially after major scandals such as Petrobras in Brazil, Sonangol in Angola, Eskom in South Africa, and 1MDB in Malaysia were revealed. SOEs often manage large resources in strategic sectors, but many are inefficient, lose money, and fail to provide essential public services due to conflicting objectives, poor management, and corrupt practices (World Bank, 2020).

In addition, economic theory suggests that SOEs tend to have lower performance due to various issues, such as agency problems (Dharwadkar, George, and Brandes 2000; La Porta and Lopez-de-Silanes 1999), soft budget constraints (Kornai 1979; Kornai et al. 2003), clientelism (Shleifer and Vishny 1994; Kopecký and Spirova 2011; Wang and Wang 2013; Liu and Zhang 2018; Jian et al. 2020), and conflicts between political and commercial goals (Bai and

Xu 2005; García-Canal and Guillén 2008; Shirley and Nellis 1991; Stan, Peng, and Bruton 2014), among other factors.

On the other hand, the increasing presence and influence of SOEs globally reflects their extraordinary potential as drivers of economic transformation. (OECD, 2024). In countries such as China, Germany, India, and Russia, SOEs operate in various sectors and number in the thousands, demonstrating their systemic role in national economies. Particularly in developing countries, SOEs are key players in infrastructure development, contributing more than 55 percent of total infrastructure investment. This makes SOEs key actors in bridging infrastructure gaps, driving regional integration, and accelerating industrialization—especially in areas that the private sector has yet to reach. SOEs' ability to raise large capital and bear long-term risks also makes them ideal for leading national strategic projects.

The strategic relevance of SOEs is increasingly evident from their expansion into the global arena. In the past two decades, the proportion of SOEs among the world's 2,000 largest companies has doubled to 20 percent, driven by SOEs from developing countries (World Bank, 2020). Total assets of global SOEs currently stand at around USD 45 trillion, equivalent to half of the world's GDP, reflecting their enormous financial and operational capacity to influence global value chains, innovation ecosystems, and sustainable development agendas. With the right institutional design—namely fiscal transparency, performance-based incentives, and a clear separation between social and commercial functions—SOEs can transform from mere state tools into dynamic, efficient, and resilient entities in driving inclusive growth and long-term competitiveness.

SOEs in Indonesia

In Indonesia, since the New Order era, SOEs or Badan Usaha Milik Negara (BUMN) has become a tool for extending the role of the state in driving the national economy. The evolution of the role of SOEs in Indonesia initially functioned as a nationalization tool after independence, then became an economic savior during the crisis, and is now directed to operate professionally in global competition. However, SOEs should not be dominated by the state, but rather act as a "balancing actor" in a liberal and competitive market. For this reason, a redefinition of the SOEs mission is needed so that it can contribute significantly to the state budget in the long term. In the context of an uncompetitive market structure, institutional reforms such as the separation of ownership and management functions are crucial to prevent abuse of power and improve operational efficiency.

Indonesia's SOEs ownership policy stipulates that the government owns a minimum of 51% of shares, making it the majority shareholder. The relationship between the government and SOEs needs to be explained transparently, including the government's objectives, monitoring mechanisms, and evaluation of the performance of SOEs directors. The government can provide financial support to strengthen the capital structure of SOEs, especially in facing challenges such as public service obligations and high funding costs.

Restructuring and privatization of SOEs is carried out to increase operational efficiency, transparency, and professionalism. Restructuring aims to improve the internal conditions of the company, while privatization is carried out with the principles of transparency, accountability, and fairness. The involvement of the private sector through the Public-Private Partnership (PPP) scheme is expected to provide financing and expertise, although it still faces challenges such as overlapping regulations and complex bureaucratic procedures. The 1998 reforms gave rise to discourse on efficiency and corporatization. Currently, more than 100 SOEs are active in various sectors, contributing around 16% of GDP (Ministry of SOEs, 2023), and absorbing more than 1 million workers. However, each SOEs has the same characteristics. The market structure greatly determines whether state intervention through SOEs is necessary.

Currently, SOEs have evolved from being a tool for nationalization and a crutch for crisis to being a strategic actor in national development. However, most still show high dependence on fiscal support and face various performance challenges. The less competitive market structure and dominance by a handful of large SOEs pose concentration and inefficiency risks (Ferdiana & Sugiyarto, 2022).

A number of policies have been directed to encourage the transformation of BUMN towards corporatization and efficiency: holding, IPO, KPBU, and restructuring. However, as noted by Smith and Trebilcock (2001), without improving internal governance and institutionalizing a clear relationship between the state and SOEs, these reforms will not have a significant impact. This is supported by a World Bank evaluation (2020) which shows the importance of separating the roles of owner, regulator, and operator as key to the success of the reform. For this, comprehensive steps are needed—setting performance indicators based on value-for-money, separating the functions of regulator and operator, and strengthening the capacity of the Ministry of SOEs (DJKN, 2020).

Indonesia’s SOEs exhibit varying levels of resilience to macroeconomic fluctuations. In this section, we present a panel series data analysis that examines the impact of macroeconomic instability on SOEs. Although the

regression analysis was conducted at the firm level, the results are aggregated and interpreted through a sectoral lens to identify broader patterns across industries. Regression analysis detail is in the appendix.

Table 1. Summary of stress testing results of the influence of macroeconomic conditions on sector profitability in Indonesia

Sector	GDP growth (YoY)	Exchange rate	JIBOR	Yield of 10 year SBN	Inflation	Vulnerability Level
Agriculture, Forestry and Fisheries	✓	✓				Moderate
Mining and Quarrying	✓	✓	✓			Moderate
Processing industry		✓	✓		✓	Moderate
Electricity and Gas Procurement		✓			✓	Moderate
Construction	✓		✓	✓		Moderate
Wholesale and Retail Trade; Automobile and Motorcycle Repair	✓	✓				Moderate
Transportation and Warehousing	✓	✓				Moderate
Provision of Accommodation and Food and Beverages	✓					Low
Information and Communication	✓		✓			Moderate
Financial Services and Insurance	✓	✓	✓	✓	✓	High
Real Estate				✓		Low
Corporate Services	✓		✓	✓		Moderate

In assessing the operational performance of a BUMN company, it is necessary to conduct a risk analysis carried out through stress test modeling in describing the sensitivity that affects the company's performance in terms of profitability amidst changes in economic conditions. Given that the scale of the BUMN that will be borrowed has a variety of business sectors, modeling analysis needs to be carried out sectorally.

Stress testing modelconducted on net profit margin as a proxy for corporate profitability in the last 15 years. Economic conditions are represented by several macroeconomic variables, including economic growth and inflation used as the main indicators that represent fundamental economic conditions, the Jakarta Interbank Offered Rate (JIBOR) as a proxy for changes in policy interest rates, and the yield of 10-year Government Securities (SBN) which reflects the dynamics and pressures in the domestic financial market.

The Ordinary Least Squares (OLS) method is used in this study because theoretically it is the best estimator in a linear model, known as BLUE (Best Linear Unbiased Estimator) according to the Gauss-Markov Theorem (Wooldridge, 2013) In the context of stress testing, OLS is used to measure the sensitivity of Net Profit Margin (NPM) to changes in macroeconomic variables such as GDP growth, inflation, Jakarta Interbank Offered Rate (JIBOR), and 10-year Government Securities (SBN) yield. Because it is linear and easy to interpret, OLS is widely used in economic and financial modeling, including for macro scenario simulations on corporate sector profit performance.

Several previous studies have shown the relevance of OLS in measuring the impact of macro variables on profitability in both non-financial and financial sectors. In the manufacturing sector, Pervan et al. (2019) and Isik & Tasgin (2017) noted a positive effect of economic growth on profit margins in Croatia and Türkiye, while inflation and interest rates reduced profitability. For the energy and infrastructure sectors, studies in various developing countries noted that bond yields and interest rates significantly depressed profitability due to high long-term project financing. In the banking sector, Sufian (2011), and Davydenko (2011) consistently use OLS to show that net profit margin and return on assets are affected by GDP growth, interest rates, inflation, and exchange rates.

Modeling is carried out on a number of public companies representing each economic sector, each sector is represented by two to three public companies with the highest market capitalization and several sectors are represented by state-owned companies listed on the stock exchange, further company details are available in Appendix. Sector classification is based on the 2020 Indonesian Standard Business Field Code (KBLI) published by the Central Statistics Agency (BPS).

In this case, the more macroeconomic variables affect the profitability of companies in a sector, the higher the level of vulnerability of the sector to changes in economic conditions. The assumption used is, if the macroeconomic variables are significant in influencing one of the company representations in each sector, then the variables are assumed to be significant in influencing the profitability performance in that sector.

Based on the modeling results, each sector is classified according to its level of vulnerability based on the number of macroeconomic variables that significantly affect the profitability of companies in a sector, then categorized into three groups ranging from low, moderate and high vulnerability categories. Sectors with low levels of vulnerability include real estate and the provision of food and beverage accommodation. Real estate is only influenced by the JIBOR variable because the characteristics that are closely related to financing,

so the interest rate level is significant. On the other hand, provision of food and beverage accommodation that is highly correlate with the purchasing power of consument is significantly influenced by GDP.

Most sectors in this analysis are classified as moderately vulnerable, characterized by sensitivity to two to three of the five macroeconomic variables used as proxies for national economic conditions. This means that these sectors remain affected by economic turmoil, but not simultaneously to all macro indicators. For example, the manufacturing and construction sectors show vulnerability to variables such as GDP and interest rates, reflecting dependence on economic growth and financing. The transportation and logistics sector, although playing an important role in the national supply chain, also tends to be affected by exchange rate fluctuations and inflation. However, in general, economic growth and exchange rates are important considerations for most sectors in this category, where GDP has a positive relationship, while the exchange rate has a negative relationship. Thus, sectors in this category still have the potential for pressure if there is a major economic shock.

On the other hand, the performance of the banking sectors and insurance sector is susceptible to being influenced by economic conditions. The modeling results show that the sector's profitability performance has high exposure to the five macroeconomic variables used. This is due to the nature of its business which is highly dependent on financial stability and market expectations. Interest rate fluctuations affect interest margins and credit demand, inflation and exchange rates trigger the risk of default from debtors, and movements in SBN yields directly affect the value of investment portfolios. Because it operates with high leverage and manages public funds, the simultaneous pressure from these various risks can have a systemic impact, making this sector very vulnerable and requiring special attention in risk mitigation policies.

The stress testing modeling analysis in this study provides an initial overview of the level of sensitivity of profitability of each sector to fluctuations in macroeconomic variables. Although this approach has been able to identify the sectors most vulnerable to economic shocks, the development of a more comprehensive model needs to be carried out in the future in order to produce a more accurate and representative analysis of economic dynamics. This includes expanding the variables used, utilizing a more complex econometric approach, and more detailed sector specifications, or using other financial ratio approaches to obtain more holistic results in assessing the resilience of a company’s financial conditions.

Indonesia's SOEs Classification with Modified BCG Matrix performance

To strengthen strategic governance and efficiency of subsidiary portfolio management, SOEs holding companies can apply the Modified BCG Matrix framework as an evaluative tool in determining dividend policies and capital allocation. This approach is based on the classic Boston Consulting Group (BCG) Matrix model, which was first introduced in 1970 by Bruce Henderson of BCG. The original model maps business units into four quadrants based on relative market share and market growth rate and is widely used by global companies such as General Electric and Unilever in their business portfolio management (Kotler & Keller, 2016).

However, for the operational context of SOEs holdings which tend to manage entities in various stages of business, regulation and fiscal contribution, the dimensions of market share and market growth are less directly applicable. Therefore, within the framework of the Modified BCG Matrix, we make the following dimension adaptations:

X-Axis (Horizontal): Profit Margin (3-Year Average)

Represents the financial efficiency and profitability of companies. Taken from the 2021–2023 audited financial statements to maintain data consistency and avoid annual cyclical distortions.

Y-axis (Vertical): Revenue Growth (Revenue Growth 2021–2023)

Describes the potential for business expansion and market dynamics of each company. Revenue growth is a common indicator used in medium-term performance assessments and can be accessed through annual reports or consolidated financial statements.

The Four Quadrants in the Modified BCG Matrix and Their Implications for Dividend & Capital Policy

Each company will be mapped into one of four quadrants based on its relative position to the average profitability and growth across the portfolio. Each quadrant has the following strategic implications:

1. Quadrant I – "Superstars"

(High Profit Margin – High Revenue Growth) = Top Right

Companies in this quadrant demonstrate an optimal combination of operational efficiency and growth momentum. They contribute significantly to the holding's revenue and profit and demonstrate the capacity to grow sustainably without relying on external capital.

Policy implications: Moderate to high dividends considering reinvestment needs. Priority for additional expansion capital if needed. Managerial and strategic support to maintain sustainable competitiveness. The amount of dividends that can be distributed to shareholders including Operational Holding can range between 25% - 85% of the SOEs company's profit in the fiscal year, in accordance with the benchmarking analysis contained in sub-chapter 3.9.

2. Quadrant II – "Emerging Challengers"

(Low Profit Margin – High Revenue Growth) = Top Left

These companies have strong growth potential but limited profitability. They are generally in the early expansion phase, have high-cost pressures, or are still in the process of stabilizing their business model.

Policy implications: Dividends are suspended or restricted to support internal consolidation. Capital injections can be considered selectively with milestone-based mechanisms. Implementation of turnaround plans for margin and efficiency improvements.

3. Quadrant III – "Stable Contributors"

(High Profit Margin – Low Revenue Growth) = Bottom Right

These companies are operationally mature, generating high margins but are in saturated or limited growth markets. They are stable contributors to the holding's revenue and cash flow.

Policy implications: High dividends to support the fiscal holding or the state. New investments are only for asset rejuvenation or operational efficiency. Medium-term business model transformation can be considered to find new sources of growth.

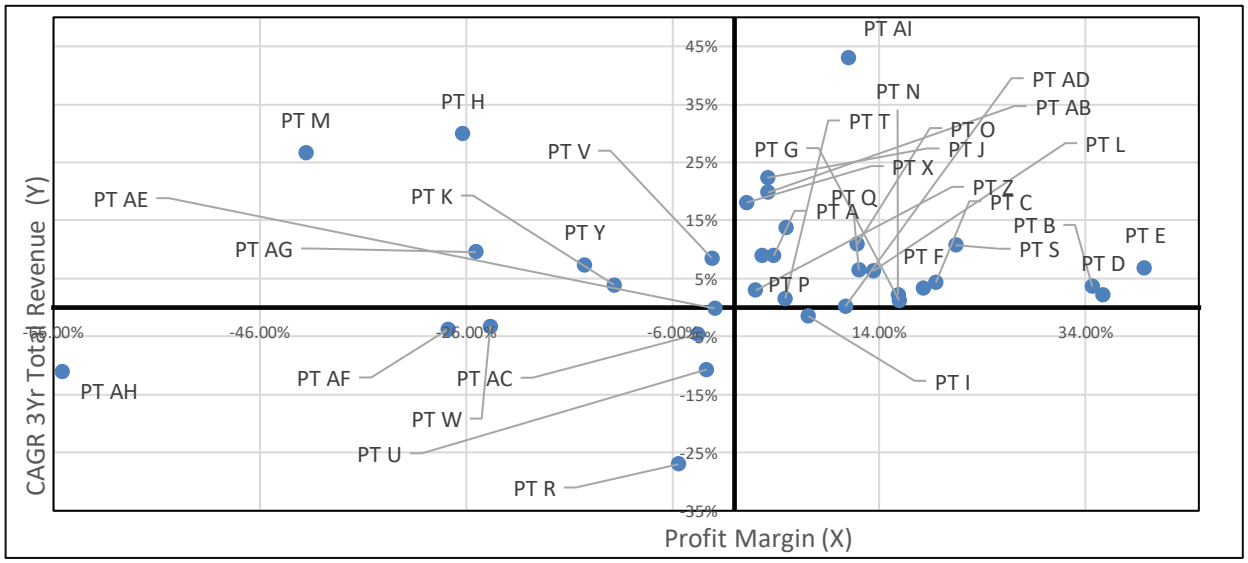
4. Quadrant IV – "Underperformers"

(Low Profit Margin – Low Revenue Growth) = Bottom Left

Companies in this quadrant face challenges in terms of both efficiency and market dynamics. They are not only less profitable but also do not show promising growth prospects.

Policy implications: Dividends are not recommended. Capital injection is stopped except for the settlement of strategic obligations (providing high multipliers to the economy) or government assignments. In-depth evaluation for restructuring, mergers, or even divestments.

Chart 1. Classification of SOEs based on the Modified BCG Matrix framework (2021 – 2023 data) – masked company names



Source: Financial Reports of 35 BUMN, 2021 – 2023, IFG Progress Analysis

Based on the classification analyzed from the average 3-year profit margin between 2021-2023 and the average revenue growth between 2021 and 2023, the following are the results of the SOEs classification:

Table 2. Indonesia's SOES classification (masked)

Classification	SOEs
Superstars	PT A, PT B, PT D, PT G, PT T, PT AI, PT N, PT O, PT J, PT X, PT Q, PT C, PT B, PT S, PT F, PT AB, PT AD, PT L, PT E PT P
Emerging Challengers	PT AG, PT H, PT K, PT Y, PT V, PT AE, PT M
Underperformers	PT AH, PT AF, PT AC, PT W, PT U, PT R
Stable Contributors	PT I

Dynamics of Inter-Quadrant Shifts in the Modified BCG Matrix

It should be emphasized that this mapping is dynamic, depending on changes in the financial performance and business strategy of each company. For example, a company currently in the "Superstars" quadrant can move to "Stable Contributors" if the market is saturated or there is a disruption of the business model. Conversely, a company from the "Emerging Challengers" quadrant can move up to "Superstars" after successfully increasing margins through operational efficiency. Therefore, the review of the quadrant position should be done periodically (for example annually), using the latest financial data from audited financial statements.

In addition, SOEs classified as "Underperformers" that have negative profit margins and below average revenue growth, should not immediately undergo total restructuring or divestment, but rather need to conduct further analysis to see whether the business in the SOES a government assignment business or a strategic business is that has a multiplier on employment or high added value for the country. Further analysis to find out

which SOEs/business sectors provide the highest multiplier will be conducted in sub-chapter 3.6 (Synergy Analysis and Value Creation).

Additional Analysis of SOEs using Financial Ratio Metrix

In supporting the mapping results within the Modified BCG Matrix framework, additional analysis based on the Financial Ratio Matrix is also used to strengthen the reading of the financial health of SOEs companies in a more comprehensive manner.

While the Modified BCG Matrix maps companies based on the Profit Margin and Revenue Growth dimensions to illustrate operational efficiency and business growth potential, the Financial Ratio Matrix provides a deeper layer through the Return on Equity (ROE) and Current Ratio indicators. ROE helps assess how effectively a company is utilizing equity to generate profits, thus becoming a real reflection of the leverage of capital owners on the company's financial performance. Meanwhile, the Current Ratio measures the company's ability to meet its short-term obligations, which reflects liquidity stability to maintain the sustainability of daily operations.

By integrating these two frameworks, not only strategic direction and growth potential can be identified, but also the underlying financial resilience. This becomes especially relevant in the context of SOEs Holding, which needs to ensure that every strategic decision from dividend policy, capital allocation, to restructuring is based on a combination of business prospects and the fundamental health of the company.

This integrated approach also allows for more accurate identification of companies that, although in the category of "Superstars" or "Emerging Challengers" in terms of growth and margin, may have liquidity challenges that need to be anticipated. Conversely, for subsidiaries in the category of "Underperformers", financial ratio analysis can help avoid premature decisions regarding restructuring, by considering whether there are still fundamental strengths that can be optimized. Thus, the Financial Ratio Matrix acts as a complementary instrument that strengthens the validity of portfolio mapping to achieve the strategic objectives of SOEs holdings in a sustainable manner.

Quadrant I – Strategic Front Runners (High ROE - High Current Ratio)

- Description: Companies in this quadrant can generate high returns on equity and have strong short-term liquidity.
- Interpretation: This company deserves additional expansion capital and can distribute dividends healthily.
- Policy Implications: With equally strong ROE and liquidity positions, companies in this quadrant are advised to distribute moderate to high dividends, without disrupting expansion. Healthy liquidity allows companies to maintain smooth operations while allocating some profits for organic growth. The priority of additional expansion capital remains open but can be done selectively for projects with high return potential.

Quadrant II – Momentum Builders (Low ROE – High Current Ratio)

• Description: The company is in the early expansion or turnaround stage; margins and ROE are not yet optimal, but liquidity is still maintained.

• Interpretation: Need to strengthen efficiency to increase ROE. Working capital is secure, success depends on operational execution.

• Policy Implications: With low ROE, this company should not be encouraged to pay dividends and focus on improving profitability. The current ratio is still adequate to be a strength to maintain the sustainability of expansion without short-term liquidity risk. Capital allocation should be milestone-based to ensure performance improvement before further expansion.

Quadrant III – Yield Anchors (High ROE - Low Current Ratio)

• Description: The company is mature, margins are high, but revenue growth is limited.

• Interpretation: Suitable for dividend optimization to support holding or state fiscal, while maintaining efficiency.

• Policy Implications: With high ROE, this company is ideal to be used as a source of dividends for holding or the country. However, a Current Ratio that is not too strong needs to be watched out for so that dividend distribution does not erode operational liquidity. Companies are advised to rejuvenate assets to maintain cash flow and maintain a high ROE level.

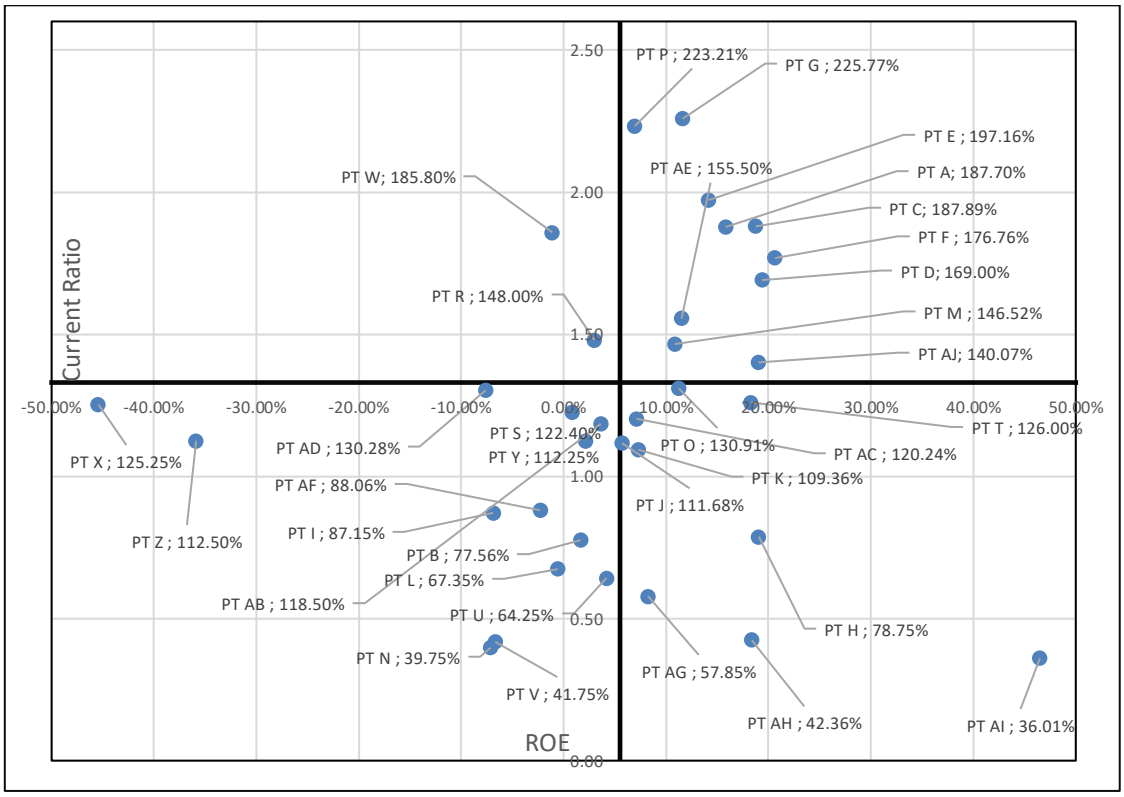
Quadrant IV – Turnaround Targets (Low ROE- Low Current Ratio)

• Description: Facing pressures from the short-term profitability and liquidity side.

• Interpretation: Requires in-depth evaluation of restructuring, merger or divestiture options, considering fundamental potential.

• Policy Implications: With low ROE and Current Ratio, the company is not eligible for dividend distribution or new expansion capital injection. The focus of policy is directed at improving the financial structure and short-term liquidity through restructuring or disposal of non-productive assets. Capital injection is only considered if there are strategic obligations or rescue programs that have a systemic impact.

Chart 2. Classification of SOEs based on the Financial Ratio Matrix framework (2021 – 2023 data)



Based on the classification analyzed from the average 3-year ROE between 2021-2023 and the average Current Ratio between 2021 and 2023, the following are the results of the BUMN classification:

Table 3. Indonesia's SOEs classification – Based on *Financial Ratio Matrix*

Classification	State-owned Enterprises
Strategic Front Runners	PT G, PT Y, PT AE, PT A, PT C, PT F, PT E, PT D, PT M, PT AJ, PT T
Momentum Builders	PT W, PT R
Yield Anchors	PT O, PT J, PT AC, PT K, PT AI, PT H
Turnaround Targets	PT X, PT Z, PT AB, PT AF, PT I, PT B, PT L, PT N, PT U, PT V, PT S, PT Y, PT AG, PT AH

Combination of Modified BCG Matrix and Financial Ratio Matrix

To obtain a sharper strategic mapping of the BUMN company portfolio, a combined approach was carried out between two evaluative matrices:

1. Modified BCG Matrix – based on average Profit Margin and Revenue Growth (2021–2023), which describes the strategic position and growth potential of the business.

2. Financial Ratio Matrix – based on Return on Equity (ROE) and Current Ratio, as an indicator of the effectiveness of equity management and short-term liquidity health.

The combination of these two dimensions produces 16 possible strategic quadrants that reflect various business conditions and challenges. The following is an explanation of each combination of quadrants that have been filled along with their characteristics and strategic implications.

1. **Superstars + Strategic Front-Runners**

   Characteristics: A company with high growth and margins, accompanied by very healthy ROE and liquidity.

   Policy Implications: Worthy of priority for expansion and strengthening competitiveness. Dividends can be distributed moderately to high. Strategic oversight is needed to maintain performance continuity.

2. **Superstars + Momentum Builders**

   Characteristics: High growth potential but ROE is not optimal; liquidity supports expansion.

   Policy Implications: Focus on asset monetization and margin improvement. Dividends suspended. Ideal for milestone-based capital injection.

3. **Superstars + Yield Anchors**

   Characteristics: High profits but limited growth, and strong ROE but less than ideal liquidity.

   Policy Implications: Focus on dividend optimization. Cash flow reform so that performance does not stagnate. Investment is limited to internal efficiency.

4. **Superstars + Turnaround Targets**

   Characteristics: Companies with strategic performance but pressure from ROE and liquidity.

   Policy Implications: Structural reform and evaluation of business model effectiveness are needed. Holding support is directed towards strengthening fundamentals, not expansion.

5. **Emerging Challengers + Momentum Builders**

   Characteristics: Large growth potential but low profitability, liquidity is quite good.

   Policy Implications: Avoid dividend distribution. Emphasize efficiency and cost control. Deserves selective support.

6. **Emerging Challengers + Yield Anchors**

   Characteristics: Growth and ROE are low but still generate adequate returns on equity.

   Policy Implications: Need financial restructuring & operational efficiency. Delay dividends, prioritize cash flow stabilization. Aim for medium-term business model transformation.

7. **Emerging Challengers + Turnaround Targets**

   Characteristics: Under pressure from both growth, profitability, ROE, and liquidity aspects.

   Policy Implications: In-depth evaluation of core business viability. Not eligible for additional capital under current conditions. Strong candidate for restructuring program.

8. **Underperformers + Yield Anchors**

   Characteristics: Low profits and stagnant growth but still has moderate ROE.

   Policy Implications: Evaluate business direction and asset repositioning. Drive efficiency to maintain ROE while strengthening liquidity. Dividends are not recommended.

9. **Underperformers + Turnaround Targets**

   Characteristics: Weakest financial position in the overall matrix (low ROE and liquidity, poor margins and growth).

   Policy Implications: Not eligible for additional capital injection. Restructuring or strategic repositioning required. Evaluate special assignments or potential divestment.

Based on the combined classification results of the average Profit Margin and Revenue Growth (Modified BCG Matrix), as well as the average Return on Equity (ROE) and Current Ratio during the 2021–2023 period, the following are the results of the BUMN portfolio mapping into 16 strategic quadrants:

Table 4. Indonesia's SOEs classification – Modified BCG Matrix

	Strategic front-Runners	**Momentum Builders**	**Yield Anchors**	**Turnaround Targets**
Superstars	10 Company: PT A PT AH PT AC PT P PT M PT D PT F PT E PT C PT G	1 Company: PT R	3 Company: PT AI PT V PT B	5 Company: PT O PT Y PT K PT H PT AJ
Emerging Challengers	–	1 Company: PT T	5 Company: PT W PT K PT AD PT N PT I	1 Company: PT H
Stable Contributors	–	–	–	–
Underperformers	–	–	4 Company: PT AB PT U PT AJ PT S	2 Company: PT AA PT AF

Value creation Approach

In this section we identify:

- **X axis (horizontal)**: Employment Multiplier – measures how many direct and indirect jobs and derivatives are created in the economy from each investment in the SOE.
- **Y axis (vertical)**: Output Multiplier – measures the increase in national output/GDP from each additional unit of production or investment made by a state-owned enterprise.

This concept is adapted from various studies showing that economic contribution is not always in line with profitability, and that sectors with high multipliers deserve different business treatment for the sake of national strategic interests.

Four Strategic Quadrants and Their Business Treatment

1. **Optimum National Contributors (High Output Multiplier – High Employment Multiplier) – Upper Right Quadrant**

   Characteristics: Companies that play a significant role in driving economic growth

and job creation. Examples include public transportation, logistics, basic infrastructure, and upstream agribusiness.[1]

Business Treatment:

- Dividend Policy: Dividend deposit relief for reinvestment.
- Capital Participation: Priority in Penyertaan Modal Negara (PMN) or mixed financing schemes.
- Business Strategy: Focus on expanding access and economic equality.
- Restructuring: Protection from aggressive privatization; focus on operational efficiency.

2. **Growth Enablers (High Output Multiplier – Low Employment Multiplier) – Upper Left Quadrant**

Characteristics: Companies that drive economic growth through innovation and productivity improvements, even if they do not significantly absorb labor. Examples include digital infrastructure, high-tech manufacturing, and renewable energy.[2]

Business Treatment:

- Dividend Policy: Moderate, with room for profit retention for further investment.
- Equity Participation: Allocated based on ROI prospects and linkages to national industrial policies.
- Business Strategy: Drive global scale expansion and technology adoption.
- Restructuring: Open to private partnerships and IPOs to improve governance and transparency.

3. **Employment Stabilizers (Low Output Multiplier – High Employment Multiplier) – Lower Right Quadrant**

Characteristics: Companies that have a high contribution to job creation, especially for low-income communities or in disadvantaged areas, but whose contribution to national output is relatively limited. Examples include postal services, people's retail, social insurance, and people's housing.[3]

Business Treatment:

- Dividend Policy: Flexible, prioritizing social returns over financial.
- Capital Participation: Provided selectively and tied to the achievement of efficiency and labor absorption targets.
- Business Strategy: Focus on service reach, cross-subsidization, and social stabilization.
- Restructuring: Encouraging efficiency and digitalization of services without reducing social functions.

4. **Legacy & Transition Units (Low Output Multiplier – Low Employment Multiplier) – Lower Left Quadrant**

[1]Reference: IMF (2019), "Reassessing the Role of SOEs in Central, Eastern, and Southeastern Europe", OECD Input-Output Tables
[2]References: World Bank (2020), "SOEs during a Crisis: Assets or Liabilities?", ADB (2020), "Reforming SOEs in Central Asia"
[3]References: ILO (2022), "Decent Work and the Social and Solidarity Economy", McKinsey (2020), "COVID-19 has revived the social contract in advanced economies—for now. What will stick once the crisis abates?"

Characteristics: Subsidiaries that are no longer strategically or economically relevant. Typically legacy entities that are inefficient, have outdated business models, or duplicate the functions of other companies.[4]

Business Treatment:

- Dividend Policy: Maximize fiscal contribution while still generating profits.
- Capital Participation: Terminated, except for the need for liquidation or total transformation, if not profitable.
- Business Strategy: Driven to merge, transform business models, or pivot to new segments if unprofitable.
- Restructuring: Prioritize divestiture, liquidation, or phase-out policies if unprofitable.

Based on the Classification, the following are the results of the quadrant mapping and tables based on sectors and value creation for each BUMN (SOE):

Chart 3. Classification of SOEs based on Sector and Value Creation (Sectoral Multiplier Matrix)

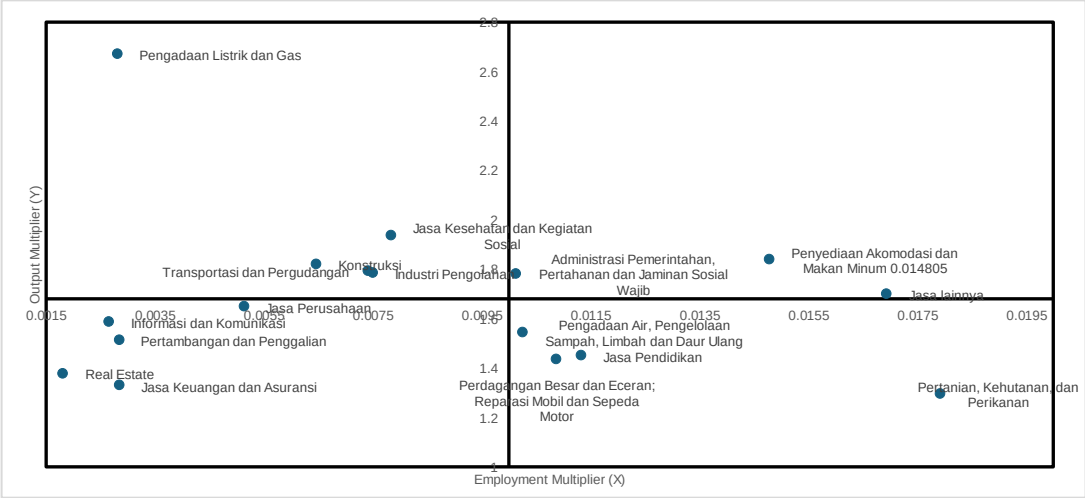


Table 5. Indonesia's SOEs classification – Value creation

Classification	Sector	State-owned company	Output Multiplier	Employment Multiplier
Optimum National Contributors	1.Provision of Accommodation and Food and Beverages 2.Government Administration, Defense and Mandatory Social Security 3. Other Services		High	High

[4]References: OECD (2021), "Ownership and Governance of State-Owned Enterprises", UNCTAD (2020), "Trade and Development Report 2020"

Growth Enablers	1.Electricity and Gas Procurement 2. Health Services and Social Activities 3. Construction 4. Manufacturing Industry 5.Transportation and Warehousing	30 Companies	High	Low
Employment Stabilizers	1. Water Supply, Waste Management, Waste and Recycling 2. Wholesale and Retail Trade; Car and Motorcycle Repair 3. Educational Services 4.Agriculture, Forestry, and Fisheries	5 companies	Low	High
Legacy & Transition Units	1. Corporate Services 2. Information and Communication 3. Mining and Quarrying 4.Real Estate 5. Financial and Insurance Services	13 companies	Low	Low

It is important to note that a company's position within this matrix is not fixed. Some factors that can shift a subsidiary's position from one quadrant to another include:

- Changes in market structure and technology (e.g. digital disruption)
- Changes in trade or fiscal policy
- Institutional reform or business model
- Condition of the economic cycle

For example, Pos Indonesia, which is currently in the "Growth Enablers" quadrant, can move to the "Legacy & Transition Units" quadrant if it fails to adapt to technological disruption or loses market share due to more efficient competition. Conversely, Agrinas, which initially had only limited influence, can move up to the "Optimum National Contributors" quadrant if it succeeds in expanding its reach, increasing the efficiency of basic food distribution, and supporting the national food security program.

This dynamic approach is in line with UNCTAD's recommendations in the 2020 Trade and Development Report, which states that the role of SOEs must be continuously evaluated periodically, considering structural changes in the economy and long-term development demands. This is also adopted in the strategic practices of the Indonesian Ministry of SOEs through initiatives such as the establishment of sectoral holdings and strategic exit plans for subsidiaries that are no longer economically or socially relevant.

Conclusion

To sum: The study concluded drawn from the two selected research questions incorporating findings from the regression analysis and quadrant-based evaluations (Modified BCG Matrix, Financial Ratio Matrix, and Sectoral Multiplier Matrix):

RQ1: ***To what extent do SOEs contribute to economic performance and development outcomes in both competitive and non-competitive market structures?***

The analysis reveals that SOEs demonstrate **heterogeneous performance across market structures**, with their economic contributions heavily shaped by the nature of the sector in which they operate. In **natural monopoly sectors** (e.g., energy, logistics), SOEs are economically justifiable and strategically essential. These sectors often align with **high-output and high-employment multipliers**, indicating that SOEs play a significant role in driving infrastructure development, industrial integration, and job creation.

However, in **competitive sectors** (e.g., manufacturing, financial services), the performance of SOEs varies substantially. While some operate efficiently and maintain strong margins (classified as “Superstars” in the Modified BCG Matrix), others struggle with structural inefficiencies and weak governance (falling into the “Underperformers” or “Turnaround Targets” quadrants). This divergence underscores the **urgency of segmenting SOEs not only by sector but by their financial and strategic profiles**. Quadrant mapping also suggests that not all SOEs should be treated equally—divestment, merger, or targeted restructuring should be considered for those lacking strategic or economic justification.

The **combined quadrant analysis** emphasizes that a uniform policy approach is ineffective. Instead, **targeted governance interventions, capital allocations, and performance mandates** are required depending on the SOE’s role in public value creation (social function vs commercial return) and their strategic positioning.

RQ2: ***How do macroeconomic variables influence the financial performance of SOEs across different sectors, and which sectors exhibit the highest vulnerability?***

The **econometric regression analysis** using OLS modeling reveals that SOEs’ net profit margins are significantly influenced by macroeconomic variables such as **GDP growth,**

interest rates (JIBOR), exchange rates, inflation, and 10-year government bond yields (SBN). Sensitivity to these variables varies across sectors, allowing for a classification of SOEs into **low**, **moderate**, and **high vulnerability** categories.

- **Low-vulnerability sectors**, such as real estate and hospitality, show profitability linked to fewer macroeconomic indicators, often only GDP or interest rates.
- **Moderately vulnerable sectors**, including manufacturing, construction, and transportation, exhibit sensitivity to two or three macro indicators, usually GDP, JIBOR, and exchange rates, suggesting moderate systemic exposure.
- The **most vulnerable sector** is financial services and insurance, where profitability is affected by *all five* macro variables, exposing them to heightened systemic risk under volatile economic conditions.

This sectoral stress testing aligns with quadrant-based findings: **high-vulnerability sectors require more robust risk mitigation strategies**, including improved capital adequacy, regulatory buffers, and potentially counter-cyclical fiscal support. Meanwhile, sectors with **low vulnerability but low strategic value** may be candidates for restructuring or privatization.

Together, the regression and quadrant analyses show that **SOEs are not monolithic**; their roles, risks, and contributions vary widely. Inappropriate one-size-fits-all interventions, such as blanket fiscal support or mass privatization would risk both inefficiency and underperformance. Instead, an effective SOE reform strategy must be **evidence-based, sectorally differentiated**, and grounded in both macro-financial resilience and strategic value creation.

Appendix

Appendix 1. Regression Testing of Macroeconomics Variable to Firm's Net Profit Margin

VARIABLES	Agriculture, Forestry and Fisheries		Mining and Quarrying		Electricity and Gas Procurement		Wholesale and Retail Trade; Automobile and Motorcycle Repair		Provision of Accommodation and Food and Beverages	
	(1) A	(2) B	(3) C	(4) D	(5) E	(6) F	(7) G	(8) H	(9) I	(10) J
GDPGrowth	0.931**	0.747***	1.883***	1.117**	0.194	-0.071	1.522***	-0.022	186.236***	-0.478
	(0.359)	(0.156)	(0.518)	(0.535)	(0.164)	(0.229)	(0.307)	(0.142)	(42.781)	(0.309)
DollarIndex	-0.521***	-0.007	0.558***	0.130	-0.180***	0.096*	-0.208***	-0.027	7.432	0.034
	(0.085)	(0.037)	(0.122)	(0.126)	(0.058)	(0.054)	(0.073)	(0.034)	(10.230)	(0.075)
JIBOR	0.450	-0.475	-1.880*	0.777	-0.038	0.097	0.486	-0.117	12.730	-0.023
	(0.777)	(0.337)	(1.121)	(1.157)	(0.347)	(0.496)	(0.664)	(0.308)	(91.559)	(0.688)
GIDN10YRIndex	-1.138	0.158	-1.516	-0.984	-1.180*	0.636	-1.533	-0.092	149.022	0.167
	(1.129)	(0.490)	(1.630)	(1.682)	(0.627)	(0.721)	(0.966)	(0.448)	(146.635)	(1.060)
Inflation	-0.007	0.211	-0.270	-1.107	-0.156	-0.675**	-0.116	0.104	-2.124	0.171
	(0.517)	(0.224)	(0.746)	(0.769)	(0.248)	(0.330)	(0.442)	(0.205)	(63.461)	(0.469)
Constant	60.154***	-0.006	-23.359	-6.343	30.495***	-10.057	27.882***	13.173***	-2,859.317**	7.577
	(9.795)	(4.254)	(14.140)	(14.588)	(6.938)	(6.250)	(8.376)	(3.885)	(1,135.339)	(8.335)
Observations	60	60	60	60	43	60	60	60	58	57
R-squared	0.559	0.377	0.448	0.154	0.298	0.231	0.492	0.035	0.363	0.060

Standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Appendix 2. Regression Testing of Macroeconomics Variable to Firm's Net Profit Margin

VARIABLES	Real Estate		Corporate Services		Health and social services		Telecomunication	
	(11) K	(12) L	(13) M	(14) N	(15) O	(16) P	(17) Q	(18) R
GDPGrowth	1.373	-2.752	1.182	0.846***	-2.340	-0.369	1.455**	2.259***
	(1.656)	(1.826)	(1.106)	(0.257)	(1.475)	(0.245)	(0.700)	(0.839)
DollarIndex	-0.413	-0.225	-0.416	0.096	-1.715	-0.074	-0.229	0.241
	(0.391)	(0.445)	(0.261)	(0.061)	(1.051)	(0.084)	(0.165)	(0.198)
JIBOR	7.503**	6.127	2.703	0.954*	-0.875	-0.423	-2.804*	-3.721**
	(3.582)	(3.904)	(2.393)	(0.555)	(3.532)	(0.546)	(1.515)	(1.815)
GIDN10YRIndex	-6.897	-7.193	-1.812	-1.558*	1.894	2.196**	1.719	0.614
	(5.208)	(6.259)	(3.479)	(0.807)	(9.125)	(0.963)	(2.202)	(2.639)
Inflation	2.720	3.143	1.397	0.301	-3.293	-0.387	-0.113	-1.867
	(2.383)	(2.718)	(1.591)	(0.369)	(3.995)	(0.366)	(1.007)	(1.207)
Constant	55.951	44.341	15.585	-7.327	160.470	21.534**	22.723	-5.678
	(45.179)	(48.720)	(30.176)	(6.998)	(103.332)	(10.242)	(19.103)	(22.887)
Observations	60	56	60	60	24	42	60	60
R-squared	0.229	0.103	0.204	0.327	0.531	0.245	0.165	0.258

Standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Appendix 3. Regression Testing of Macroeconomics Variable to Firm's Net Profit Margin

	Processing industry*		Construction*		Banking and Insurance			Transportation	
VARIABLES	(19) S	(20) T	(21) U	(22) V	(23) W	(24) X	(25) Y	(26) Z	(27) AB
GDPGrowth	0.318	0.606	5.858***	0.103	1.695***	1.498***	2.725***	28.768***	2.370**
	(0.304)	(1.060)	(1.379)	(0.116)	(0.443)	(0.329)	(0.506)	(9.874)	(0.904)
DollarIndex	-0.619***	-0.446*	-0.580	-0.033	0.044	-0.045	0.316**	4.189*	-0.091
	(0.072)	(0.261)	(0.420)	(0.027)	(0.105)	(0.078)	(0.120)	(2.412)	(0.213)
JIBOR	0.336	-7.401***	7.103**	0.671***	1.115	2.226***	2.142*	-8.548	0.607
	(0.658)	(2.280)	(2.891)	(0.251)	(0.958)	(0.712)	(1.095)	(21.228)	(1.954)
GIDN10YRIndex	0.585	2.932	19.663***	0.008	-3.229**	-3.949***	-2.407	13.277	0.324
	(0.957)	(3.633)	(4.951)	(0.364)	(1.393)	(1.036)	(1.591)	(33.843)	(2.841)
Inflation	0.957**	2.040	-1.487	-0.041	1.046	1.633***	0.240	22.126	-0.488
	(0.438)	(1.589)	(1.991)	(0.167)	(0.637)	(0.474)	(0.728)	(14.723)	(1.300)
Constant	58.956***	43.862	-72.415	0.959	33.361***	39.867***	-9.704	-685.112**	8.196
	(8.298)	(28.381)	(49.724)	(3.159)	(12.083)	(8.984)	(13.804)	(263.840)	(24.644)
Observations	60	55	48	60	60	60	60	56	60
R-squared	0.737	0.303	0.468	0.275	0.394	0.636	0.505	0.278	0.153

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