

# The Status Quo and Divestment Commitments on the Performance of Central Java Government in 2018

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## ABSTRACT

This study aims to ascertain the effect of status quo commitment and divestment on local government performance. This research employed quantitative-associative methodology and data analysis tests such as the t-test, F-test, and determination test. Based on the calculation of the status quo and financial performance results, the t-count of  $.899 > t$ -table of 2000 and the significance value were  $0.375 > 0.005$ . It can be concluded that Hypothesis 1 was not accepted, namely that there is an effect of the status quo commitment of regional heads on the performance of local governments. Based on the calculation of diversification and financial performance, the results of t-count were  $3125 < t$ -table of 2000, and the significance value obtained was  $0.004 > 0.005$ . It can be concluded that Hypothesis 2 was accepted, namely that there was an effect of regional head diversification on the performance of local governments. Furthermore, the F test results showed that the F value was  $5.001 > F$ -table, and the significance value was  $0.013 > 0.05$ . It can be concluded that Hypothesis 3 was accepted, namely that there was an effect of status quo commitment and divestment on local government performance.

**Keywords:** *divestment, government performance, status quo*

## 1. INTRODUCTION

With regional autonomy, local governments are required to be independent to take care of their administration. In practice, the government must carry out according to the regulations that have been set to obtain good performance; thus, the accountability of financial statements can be accepted without exceptions. [1]

Accountability is the responsibility of powerful people entrusted with the management of public resources to account for a variety of budgetary, administrative, and programmatic issues. According to Presidential Instruction Number 7 of 1999, performance accountability manifests a government agency's obligation to account for its success/failure in implementing its mission and achieving the goals and objectives established through periodic accountability tools. According to Permendagri Number 13 of 2006, good budgeting will provide a basis for performance measurement and generate valid performance information and accuracy; thus, it can be used to prepare performance reports for control [2] and to implement government regulation number 105 of 2000 and regulation of the minister of home affairs number 13 of

2006 regarding regional financial management guidelines. One of the most important aspects is the disclosure of regional budgets and revenues and regional expenditures and financing. These reports are written according to their respective interests.[3]

Government agency performance is a statement of the agency's attainment of its goals or objectives as an extension of its vision, purpose, and strategy. It indicates success or failure in performing operations aligned with established programs and policies, including the Government Performance Accountability System or Sistem Akuntabilitas Kinerja Instansi Pemerintah (SAKIP). The Performance Accountability System for Government Agencies is a tool that government agencies use to fulfill their obligation to account for the success and failure of implementing the organization's mission. It comprises several components that work together as a single unit, including strategic planning, performance planning, performance measurement, and performance reporting.

Enhancing governance and management systems is a critical objective of the present government's bureaucratic reform. The public management system should be a priority on accountability along with

enhancing results-oriented performance (outcome). As a result, the government established a strategy for establishing a transparent, consistent, and effective accountability system known as the Government Performance Accountability System, called SAKIP.

Accountability is the system's keyword. It can be interpreted as a manifestation of a person's or government agency's obligation to account for the management of resources and the implementation of policies entrusted to them. It aims to achieve the accountability goals established through accountability media and periodic accountability reports. The government Agency Performance Accountability System, abbreviated as SAKIP in Indonesia, is defined in Presidential Regulation Number 29 2014 on Government Agency Performance Accountability System. SAKIP is a systematic series of various activities, tools, and procedures to determine and measure, collect data, clarify, summarize, and report performance to government agencies in the context of accountability and transparency.

In organizational and financial management, transparency and accountability are critical issues, particularly for local government entities. Effective regional finance management enables regions to identify and prioritize regional development goals, improving regional performance. Organizational and financial management do not align with the public's expectations as consumers of government services. There are several critiques against local governments, both in terms of governance and development, both within the country and overseas [4]. [5] showed that the performance of local governments has been distorted and skewed in the past as it has focused only on successful projects while failing programs have been suppressed. According to Ahyaruddin and Akbar [3], submitting government performance is a formality that is more influenced by coercive factors in the form of regulatory pressure, as expressed in the theory of institutional isomorphism, namely gaining legitimacy external support, one of which requires transparency, namely, the status quo.

The status quo is the state of affairs that exists at a particular time. This Latin term is translated literally into "a certain circumstance". In general, it refers to the existing status of a situation that should not have been naturally developed into a different one. For instance, in an African nation where a President has ruled for fifteen years, divestment is another issue affecting the openness of local government performance. The word "divestment" is often used in economics and finance. In the world of stocks, divestiture refers to the process through which the creator of a business or organization (founder) sells some of his or her shares to other parties or the public. Divestment is the polar opposite of investment; it occurs when a business purchases a portfolio of assets with the expectation of future greater

returns. Meanwhile, divestiture is a decrease in an asset. The reasons for the company's corporate activity differ, one of which is a financial constraint. If it is the case, we should defer investing in the firm for some time. Due to the need for money for growth or debt repayment, the company's finances tend to rise a problem. Additionally, we must inquire why businesses tend not to take a loan from banks. They perhaps lack the collateral to access a loan. Similarly, issues are occurring in a firm or line of business. Such issues drain the energy to concentrate. In this case, they may enlist the assistance of an external accountant to do an impartial analysis of the business, particularly in terms of cash flow and debt.

Chiu [4] conducted a previous study entitled Managerial commitment to the status quo and company divestiture: Can power drive openness to change?. In this research, CEO commitment to the status quo (CSQ) is identified as the primary psychological element influencing their reluctance to organizational change. This research added to the literature on strategic leadership and organizational transformation by emphasizing the need to evaluate how diverse power bases influence the decision-making of CEOs who may have a proclivity to retain corporate assets when the circumstance requires change. We can correctly analyze more the influence of strengths on a firm's strategic activities if we better know how diverse power bases might affect strategic outcomes in the context of managerial, psychological biases.

## 2. LITERATURE REVIEW

### 2.1. Status Quo

The status quo describes people's preferences to maintain their current status or situation. According to Pompian [5], the status quo bias indicates the condition of investors who avoid change and prefer the same investment conditions. The existence of this status quo affects government performance. It is in line with research [6], [7], [8] stating that the status quo had a positive effect on investment decisions. However, it is not in line with [9] and [10], which showed that the status quo had a positive effect on investment decisions, but it had no significant effect on financial performance.

## **2.2. Divestment**

The divestment comes from the English translation. Divestment is the sale of shares owned by someone. Meanwhile, the definition of divestment according to Article 1 number 13 of Government Regulation of 2008 concerning Government Investment and Article 1 number 1 of Regulation of the Minister of Finance of the Republic of Indonesia Number 183/PMK.05/2008 concerning Requirements and Procedures for Divestment of Government Investment is the sale of securities and government ownership either in part or in whole to another party.

Companies or individuals who divest are supported by various factors: reducing asset costs and increasing income. The asset expense includes property ownership indicating taxes, maintenance costs, and others. In addition to profits and reducing expenses, some other factors are applied. Firstly, a company or investor wants to focus on the best businesses that provide the highest returns. That is why most divestment is not done on the main asset. Secondly, it generates big profits at the right time, such as selling the business and investment instruments when prices are high. Thirdly, they want to reduce the potential for greater losses or failures as the assets sold are no longer profitable.

## **2.3. Government Performance**

In the Regional Government performance measurement (Pemda), it must include the measurement of financial and non-financial performance. Local Government Performance Indicators include input indicators, process indicators, output indicators, outcome indicators, benefit indicators and impact indicators.

## **2.4. Hypothesis**

### *2.4.1. The effect of regional head's status quo commitment on local government performance.*

Power is the ability to produce an effect on others or the potential to influence others. Apart from being private property, power is a function of the leader, the follower, and the situation. At the same time, influence is a change in a person's attitudes, values, beliefs, or behavior due to influencing tactics. Influencing tactics refer to a person's behavior designed to change another person's attitudes, beliefs, values, or behavior. Therefore, the relationship between the two can be written as an analogy: if power is the ability to make changes, the influence is the degree of actual change in the attitudes, values, beliefs, or behavior of a person. Facts prove that human behavior tends to prioritize its own desires and needs under any conditions. In conditions like this, humans need to be directed by people who are considered capable of guiding and directing individual behaviors into collective environmental behavior. The position of the person who can direct these behaviors can be a leader who is in an organizational environment that has been formed for a specific purpose and is limited by time, as well as a leader who is generally formed and recognized by the community whose position is not limited by the time.

Hypothesis 1: there is an effect of regional heads' status quo commitment on local government performance.

### *2.4.2. Effect of divestment on local government performance*

Economic development cannot be separated from the role of the Regional Government, which has succeeded in utilizing all available resources in each region. Local governments are required to be more independent in operational financing activities in each region to enlarge the role and capacity of the region in economic development. In the development, provincial governments must utilize all available resources in each region and are required to be more independent. Meanwhile,

the objective of economic development is to improve its economic performance to create jobs and provide a decent life and welfare for its people. One of the benchmarks for measuring success in economic development is economic growth. According to Boediono [11], economic growth is the rate of increase in national income. Thus, it can be interpreted that economic growth is a process of increasing output per capita in the long term and is a measure of the success of economic development. Economic growth has become one of the indicators of the success of the implementation of economic development that can be used as a benchmark at a macro level.

Hypothesis 2: there is an effect of divestment on local government performance.

#### *2.4.3. The effect of status quo commitment and divestment on local government performance*

The performance of the local government that has been conveyed so far tends to be false and biased as it only conveys successful programs while failing programs tend to be hidden. [3] also revealed that the government's conveyed performance was only a formality and was more influenced by coercive factors in the form of regulatory pressure as expressed in the institutional isomorphism theory, namely to gain legitimacy and external support, one of which needs transparency, namely, the status quo. The status quo is the state at a certain time. This Latin phrase can be translated as "a certain situation". In general, it means the current state that should not have progressed naturally to another state. An illustration of the status quo, for example, is shown in an African country where the same President has been in power for fifteen years. Although this President accepted considerable popular support, many people dreamed of change. Under this environment, several political groups promoted new candidates and expressed their discontent about the risky concentration of political power and the worrying growth of poverty rates. These groups wanted to change the status quo. They proposed coherent ideas through different mass media to solve the most relevant problems and thereby made progress in terms of well-being. In

this case, many individuals greatly benefited from the current situation. The President's relatives and friends found attractive job positions and contracts that made them rich and powerful. As a result, they aggressively opposed any initiative to change the status quo. Another factor determining the transparency of local government performance is divestment. Divestment is a term that is frequently used in the world of economics and finance. In stocks, divestment means reducing the number of shares of the founder of a company or agency (founder).

Divestment is the opposite of investment when a company buys several assets expected to generate higher returns. Meanwhile, divestment is a reduction in assets. The purpose of the divestment is to raise funds or profits. Companies or agencies generally sell assets because they are no longer profitable and are considered dangerous. Besides, owners also sell assets to avoid serious losses in the future.

Hypothesis 3: there is an effect of status quo commitment and divestment on local government performance.

## **Research Method**

### **Operational definition**

#### **status quo**

The status quo is a structure or condition that has a function to perpetuate what is already there

#### **Divert**

Disinvestment is the reduction or termination of investment carried out by selling plant and equipment or not maintaining or replacing capital assets worn out in use.

#### **Financial performance**

Financial performance is a report on a company's financial review obtained in a certain period to identify the financial flow.

#### **Method**

The method used in this study was quantitative. The quantitative method is based on a positivist philosophy, used to examine a particular

population or sample, used research tools to collect data and analyzed quantitative or statistical data to test predetermined hypotheses [12]. The research conducted by this author used an associative/quantitative approach. According to Russia [12], associative/quantitative research determines the degree of relationship and pattern or form of influence between two or more variables. By conducting this research, a theory will be built that functions to explain, predict and control a symptom.

**Data analysis**

This study utilized the t-test, F-test and determination test to identify the effect between the status quo variables, diversification and financial performance.

**T-test**

**Table 1.** The t-test results

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	3.039	9.855		.308	.760
Status Quo	.296	.115	.482	2.572	.015
Diversifikasi	.377	.183	.362	2.060	.048

a. Dependent Variable: Kinerja Pemerintahan

Based on the calculation of the status quo and financial performance, the t-count of .899 was > t-table of 2000, and the significance value obtained was 0.375 > 0.005. It can be concluded that Hypothesis 1 was unacceptable, namely that there is an effect of the status quo commitment of regional heads on the performance of local governments. Furthermore, based on the calculation of diversification and financial performance results, the results of t-count was 3125 < t-table of 2000, and the significance value obtained was 0.004 > 0.005. It can be concluded that Hypothesis 2 was accepted, namely that there is an effect of regional head diversification on the performance of local governments.

**F-test**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2114.413	2	1057.207	22.652	.000 <sup>b</sup>
	Residual	1493.472	32	46.671		
	Total	3607.886	34			

a. Predictors: (Constant), Divertasi, Status Quo

b. Dependent Variable: Kinerja Pemerintahan

**Table 2.** The F-test results

Based on the results of the F-test, it was found that the F value was 5.001 > F-table, and the significance value was 0.013 > 0.05. It can be said that Hypothesis 3 was acceptable, namely that there is an effect of status quo commitment and divestment on local government performance.

**Determination Test**

**Table 3.** Determination Test Results

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.766 <sup>a</sup>	.586	.560	6.83162

a. Predictors: (Constant), Divertasi, Status Quo

Based on the results of the determination test, the R Square value was 0.738, indicating that the status quo and divestment commitment to local government performance had a major influence on government performance, namely 73.8 %, while the other 37.2% was influenced by factors included in the research and unexplored research.

**3. DISCUSSION**

**The regional head's status quo commitment affects the performance of the regional government**

Based on the results of the calculation of the status quo and financial performance, the results of the t-count of .899 were > t-table of 2000, and the significance value was 0.375 > 0.005, it can

be concluded that Hypothesis 1 was unacceptable, namely that there is an effect of the status quo commitment of regional heads on the performance of local governments.

### **The divestment affects the performance of local governments**

Based on the calculation of diversification and financial performance results, the results of t-count were  $3125 < t\text{-table of } 2000$  and the significance value was  $0.004 > 0.005$ . It can be concluded that Hypothesis 2 was acceptable, namely that there is an effect of regional head diversification on the performance of local governments.

### **The status quo commitment and divestment affects local government performance**

Based on the results of the F test, it was found that the F value was  $5.001 > F\text{-table}$ , and the significance value was  $0.013 > 0.05$ . It can be said that Hypothesis 3 was acceptable, namely that there is an effect of status quo commitment and divestment on local government performance.

## **4. CONCLUSION**

Based on the results of the calculation of the status quo and financial performance, it can be concluded that Hypothesis 1 is unacceptable that there is an influence of regional head's status quo commitment on the performance of local governments. Furthermore, based on the results of the F test, it can be said that Hypothesis 3 is accepted, that is, there is an effect of status quo commitment and divestment on local government performance.

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