Government subsidy, strategic profitability and its impact on financial performance: empirical evidence from Indonesia

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Summary/Abstract: This paper examines the moderating impact of capital structure on the relationship between government subsidy, strategic profitability and financial strength of state-owned enterprises in Indonesia. A purposive sampling is used and data were collected from seven state-owned enterprises over the period of 2005 to 2016. The empirical evidence provided by this paper indicates that government subsidy has a significant negative impact on the financial strength, which means that the state-owned enterprises are difficult to manage the company independently if the government continues to provide subsidies or additional capital. This study also found
that strategic profitability has a significant positive impact on the financial strength, which means there are opportunities for management to perform profitability practice of earnings management as strategic to enhance the level of financial strength of the company. However, capital structure is strengthening the relations of ‘government subsidy’ and ‘real earnings management’ with the financial strength. So far, it is still little known how ‘capital structure’ affects the relationship between government subsidy and financial strength, specifically in the case of state-owned enterprises.
international evidence, highlights the latest academic research, cites examples of countries that have significantly reduced government spending as a share of national economic output, and analyzes the economic consequences of those reforms. Key Takeaways.