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RESEARCH ARTICLE

REGULATING INDUSTRIAL STRATEGY FOR INDONESIA MINING COMPANY

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Abstract

The purpose of this research is determine the differences of financial performance, investing activity, and market performance of mining companies due to announcement of Law of Republic of Indonesia Regarding Mineral and Coal Mining. This research picks 33 public mining companies as samples based on purposive sampling method with several criteria. Method of hypothesis testing uses multivariate analysis of variance (manova), analysis of variance (anova) and Kruskal Wallis test with three groups of periods, which are before, as at, and after the announcement of Law of The Republic of Indonesia Regarding Mineral and Coal Mining. The results show that there is no significant difference of company's current ratio, working capital turnover ratio, debt to asset and return to asset ratio before, as at, and after the announcement of Law of The Republic of Indonesia Regarding Mineral and Coal Mining. Furthermore, there is no significant difference of company's investing activity ratio before, as at, and after the announcement of Law of Republic of Indonesia Regarding Mineral and Coal Mining. The market performance test shows interesting result that the abnormal return before the announcement of Law of Republic of Indonesia Regarding Mineral and Coal Mining is significant higher than after.

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Introduction:-

Indonesia possesses abundant natural resources starts from Sabang to Merauke. Indonesia owns abundant renewable natural resources inside its vast forest and also deep inside its sea. Beside the renewable resources, Indonesia also owns in large number of nonrenewable resources, including mining resources deep inside Indonesia's earth ground. Indonesia possesses not just mineral and metal mining resources, but also abundant energy mining resources. For example, according to BP Statistical Review of World Energy (2015), Indonesia is the third largest coal producer in the world on 2014 and also being the fifth largest coal reserved in the world. Energy mining resources are needed as energy sources for power plant as well as they are also needed to produce electricity across Indonesia. Even though mineral and metal mining resources could not be used for energy sources, but they are very precious and very useful for raw material in many kind of industry. Mining resources are very valuable and they play strategic role to strengthen Indonesia economic activities. Mining resources are very important in reaching people's prosperity.

According to the 1945 Constitution of the Republic of Indonesia Article 33, it is stated that land, water as well as natural riches are to be controlled by the state to be exploited to the greatest benefit of people. This constitution should be the fundamental of mining practice in Indonesia. Therefore, mining resources potential should be utilized

to support sustainability of national development. Since mining industry was high capital and high technology industry, the government needs cooperation with other public and private parties, domestically and overseas. During the democracy reformation period, there were so much strategic alliances established in Indonesia mining industry. They were also supported by external factor which is the booming of commodity prices in early year of 2000. It may be a strong stimulus for many companies to enter mining industry around the world, especially in Indonesia. Booming of commodity prices also attract so many Indonesia companies changed its previous business to mining business. Mining business offers a great profitability potential. PT. Freeport Indonesia, PT. Newmont Nusa Tenggara, and BP Berau Ltd. are the examples of foreign mining companies which have been operated and have had a long track record in Indonesia. They have given much contribution on Indonesia economic development, but at the same time they also have given much more disruptive problems to the surrounding society, especially around their mining area across Indonesia.

Mining industry in Indonesia consists of several types of players. They are domestic private and public companies, foreign private and public companies, also state owned companies. Because of the fact that the players are not only state owned companies, but also there are foreign companies, so it is prone of fraud indicated. There are any possibilities that the mining resources are exploited without giving any advantage or prosperity to Indonesia people. Unfortunately, many domestic and foreign companies have exploited Indonesia's mining resources and exported it to other countries without giving any significant contribution for Indonesia. They even enrich the other countries and neglect their responsibility to Indonesia people. They let Indonesia people suffer while other country's people enjoy Indonesia's mining resources. Those facts show a great violation to the 1945 Constitution of the Republic of Indonesia Article 33.

In order to overcome this situation and prevent future violation, the government of Indonesia launched Law of The Republic of Indonesia Regarding Mineral and Coal Mining on the early of 2009. This regulation is expected to solve many disruptions in Indonesia mining industry. The disruptions happen in many cases, including double issuance of mining permit by local government, conflict between mining companies and local people around mining area, environment destruction, national deprivation, and many other cases. The main problem before this new constitution is about mining agreement and contract between companies and government. These contracts place government and companies into unfair position. Government is regarded as business partner and does not have any superior power to force mining companies, in order to renegotiate the royalty contract, royalty sharing, taxes, and other environmental issues. Within the new regulation, government is given with the superior power to punish the fraudulent companies in form of mining activities suspension and revoking the mining permit.

Law of The Republic of Indonesia Regarding Mineral and Coal Mining also prohibits mineral ore export and other mining raw material by 2014. The mineral ore indeed, should be processed further before exported to other countries. This new regulation actually gives new opportunity for mining companies to build smelter and other mining ore processing factories. This is also good for companies. They can sell their mining products in higher price because their mining products will have additional value from further processing. Utilizing this opportunity needs investment and mining companies have to spend their capital expenditure to build new smelter or other factory. The companies still have 5 years to prepare themselves to face this regulation. The regulation is launched at 2009, but its implementation would be at 2014. Those 5 years are expected to be enough time for mining companies to arrange their strategy, looking strategic partnership or optional financing to build smelter.

Law of The Republic of Indonesia Regarding Mineral and Coal Mining actually gives positive effect on mining company's performance because they can improve their revenue and profitability in long run period, even though it needs sacrifice to invest at short term. It is predicted that there would be short term pressure on company's financial performance caused by its investment's cost of finance to build smelter and other mining ore processing factories. This new regulation also gives assurance on mining investment climate in Indonesia. By this new regulation, there would be no more threats caused by disruptive mining permit by local government. This should be good news for mining companies because investor's confidence would grew up and encourage investors to buy mining stocks. Mining company's stock prices are predicted to rise, even though they have short term pressure on their financial performance.

If Law of The Republic of Indonesia Regarding Mineral and Coal Mining really works, there should be differences on Indonesia mining company's financial and market performance. This research would like to answer its problem. Investors wait for government consistency on implementing the new rule and policy. Thus, it is actually not just

good for mining industry, but also for other industry, especially for investment climate in Indonesia. Investors need assurance and certainty on Indonesia investment and business climate.

Literature Review:-

Previous Study:

The previous studies exhibit various findings about mining company's performance listed on stock exchange. In addition, there were several previous studies about the influence of law to the stock market. According to C. O. H (1920), the law of the state has effect to stockholders on their statutory liability for corporate debts from the time the liability was incurred by the corporation, and not from the time the cause of action accrues against it.

According to Ghosh (1985), coal mining industry in the pre nationalization period has a higher rate of growth of output relative to the post nationalization period in both the total and underground workings, but better performance in growth of output in the open cast working is booked in the post nationalization relatively to pre nationalization period. Even though, it does not have any impact on profit / loss performance. The profit / loss phenomenon results from the balancing of price and cost. In the pre nationalization a near equal percentage rise in price and cost contributed to positive profits. In the post nationalization period, the higher percentage rise in price compared to cost was accompanied by a very high percentage rise in losses, even though the wage cost per ton risen less than price and cost (as in the pre nationalization period). It indicates that higher prices throughout the post nationalization period were unattractive sufficient to improve productivity and reduce cost.

According to Orihuela (1996), the risk of doing mining business in Latin America has become definitely manageable, while the opportunities were increasingly better and more attractive. The key issue was the understanding rewards and implications of becoming a successful mining in the region. Although there were still many challenges for Latin America's mining industry, it was clear that Latin America has reached a new era for mining investment.

According to Farina et. al. (1998), in order to achieve successful results of mining development, countries should enforce attractive investment regulations. The Moroccan government has initiated in depth rethinking of the mining sector and has made continuous efforts to modernize mining sector. Along with the growth of the Moroccan mining industry, the country is acquiring a valuable expertise and knowledge of mining modern techniques to operate it in the future.

According to Abraham and Voos (2000), Right to Work Law increased 2 to 4% in shareholder wealth. Thus, Right to Work legislation has a positive impact on the future profits of business organization. Investors are misguided and only believe that Right to Work Law hurts union and thereby increase the future profitability of firms operating primarily in a state with Right to Work Law.

According to Gandataruna and Haymon (2011), it is the duty of any government to create attractive sufficient investment climate to ensure that mining industry helps to push forward the process of socio economic development. Law of The Republic of Indonesia Regarding Mineral and Coal Mining has the potential to undermine the pivotal principle of the Constitution.

Mining Industry Overview:

According to Law of The Republic of Indonesia Regarding Mineral and Coal Mining, mining activities are defined as partially or fully activities in which conducting research, managing and utilizing minerals or coal, including common investigation, exploration, feasibility study, construction, exploitation, processing and refining, transporting and selling, also after mining responsibility activities. Law of The Republic of Indonesia also explains briefly about mineral mining and coal mining definition. Mineral mining is mining of a group of minerals which can be the form of ores or stones, outside geothermal, oil and gas, and groundwater. By this definition, gold, nickel, iron, copper, and other metals can be categorized into mineral mining. According to Law of The Republic of Indonesia Regarding Mineral and Coal Mining, coal mining is defined as mining of carbon sediment inside the earth ground, including solid bitumen, turfs, and asphalt rocks.

According to Simatupang et. al. (1996), mining industry in Indonesia had a very long history started from colonialism age, developed to independence age, until it reached prevailing condition. After reaching its independence on 1945, the Government of Indonesia, led by Soekarno acquired Dutch mining companies by

nationalization scheme. It caused the country's mining resources untouched for the following decade. Soeharto's new order government put high concern on mining potential and performed many explorations across Indonesia by launching Law Number 11 Year 1967. According to PricewaterhouseCoopers (2000), under the conditions created by Law Number 11 Year 1967, Indonesia had become the world's second largest tin producer, third largest copper producer, fifth largest nickel and seventh largest gold producer by the turn of century.

Commodity prices booming in the early of 2000 gave great profitability for mining companies in Indonesia, especially for those which were export oriented. This commodity prices booming is stimulated by world economic growth, especially from developing countries. Commodity prices hit their all time high position on year 2008 and then they declined sharply by global financial crises on the same year. Even though, the prices rebounded on 2009 until early 2011 period, the commodity prices then enter the bearish phase on early 2011. This downtrend phase gave very hard blow to national mining industry. After the year of 2011, mining company's performances were under pressure.

Mining Regulation In Indonesia:

According to Wahyu (2002), after reaching independence, the mining industry in Indonesia was not developed because political instability and social unrest. Indonesia government launched Law of The Republic Indonesia Number 86 Year 1958 Regarding Nationalization of Dutch Mining Companies. As the government realized that mining industry needs technology savvy and capital intensive, the Government of Indonesia then made strategic partnership with foreign and domestic companies. In 1967, the government launched Law Number 1 Year 1967 Regarding Foreign Investment and Law Number 11 Year 1967 Regarding Basic Provisions of Mining. The government then launched Law of The Republic of Indonesia Number 4 Year 2009 Regarding Mineral and Coal Mining to replace Law Number 11 Year 1967. By this new law, mining companies no longer enjoy guaranteed security of mining contract tenure and low royalty rates. This new law gives the supervisions and management of state revenue authority to the local government rather than central government.

Law Of Republic Of Indonesia Number 3 Year 2020 As Ammendment Of Law Of Republic Of Indonesia Number 4 Year 2009:

Law of The Republic of Indonesia Number 3 Year 2020 Regarding Mineral and Coal Mining is launched to replace the prior rule, which is Law Number 4 Year 2009. According to Law of The Republic of Indonesia Number 3 Year 2020 Article 2, the main idea of this new law is to manage mining resources based on the principles of benefit, justice, equitable distribution, participation, transparency, and accountability. Also sustainability and caring for environment should be prioritized. Several important points of Law of The Republic of Indonesia Number 3 Year 2020 which differ to the prior rule are listed below.

Table 1:- Important Points of The Republic of Indonesia Number 3 Year 2020.

Article	Contents
Article 35	Mining business shall be conducted in these forms: IUP, IPR, IUPK.
Article 47 Paragraph 1	IUP Production for metal mineral mining may be granted for a period maximum of 20 (twenty) years and may be extended twice for 10 (ten) years each time.
Article 47 Paragraph 5	IUP Production for coal mining may be granted for a period of a maximum of 20 (twenty) years and may be extended twice for 10 (ten) years each time.
Article 92	Holders of IUP and IUPK shall be entitled to own minerals including associated minerals, or coal that have been produced provided they have paid exploration or production royalty, except for radioactive associated minerals.
Article 102	Holders of IUP and IUPK shall be required to increase the added value of mineral and/or coal resources in the execution of mining, processing and refining, and the utilization of mineral and coal.
Article 103 Paragraph 1	Holders of Production Operation IUP and IUPK shall be required to perform processing and refining of domestic mining production
Article 112 Paragraph 1	After performing production activities for 5 (five) years, IUP and IUPK holding business entities whose shares are owned by foreign investors shall be required to divest their shares to the Government, regional government, state-owned business enterprises, region-owned business enterprises, or national private business enterprises.

Article 129 Paragraph 1	Production IUPK holders for metal mineral and coal mining shall be required to pay 4% (four percent) of their net profit to the state and 6% (six percent) of their net profit to regional governments as of the start of their production.
Article 170	Holders of Contracts of Work shall be required to perform refining as meant in Article 103 paragraph (1) no later than 5 (five) years from the promulgation of this Law.

Source: Law of The Republic of Indonesia Number 3 Year 2020

Financial performance:

Financial performance is defined using financial ratio. According to Subramanyam and Wild (2009), financial ratio analysis is the most popular tools of financial analysis. A ratio expresses a mathematical relation between two quantities. To be meaningful, a financial ratio must refer to an economically important relation. Financial ratios which are applied in this research are liquidity ratio, activity ratio, solvability ratio, and profitability ratio.

Table 2:- Financial Ratio Formula.

Financial Ratio	Formula
Liquidity Ratio	Current ratio = $\frac{\text{currentassets}}{\text{currentliabilities}}$
Activity Ratio	Working Capital Turnover Ratio = $\frac{\text{sales}}{\text{workingcapital}}$
Solvability Ratio	Debt to Asset Ratio = $\frac{\text{totalliabilities}}{\text{totalasset}}$
Profitability Ratio	Return to Asset = $\frac{\text{netprofit}}{\text{totalasset}}$

Subramanyam and Wild (2009)

Market performance:

Market performance is defined as abnormal return. According to Jones (2009), the abnormal return is the stock's return over and above what the stock should earn as predicted by the index model used. When studying a particular event, it is important to make sure that abnormal return measures the event and not some other economic factor occurring at the same time. Abnormal return is formulated below.

$$AR_{it} = R_{it} - E(R_{it})$$

While:

AR_{it} = abnormal rate of return for security i during period t

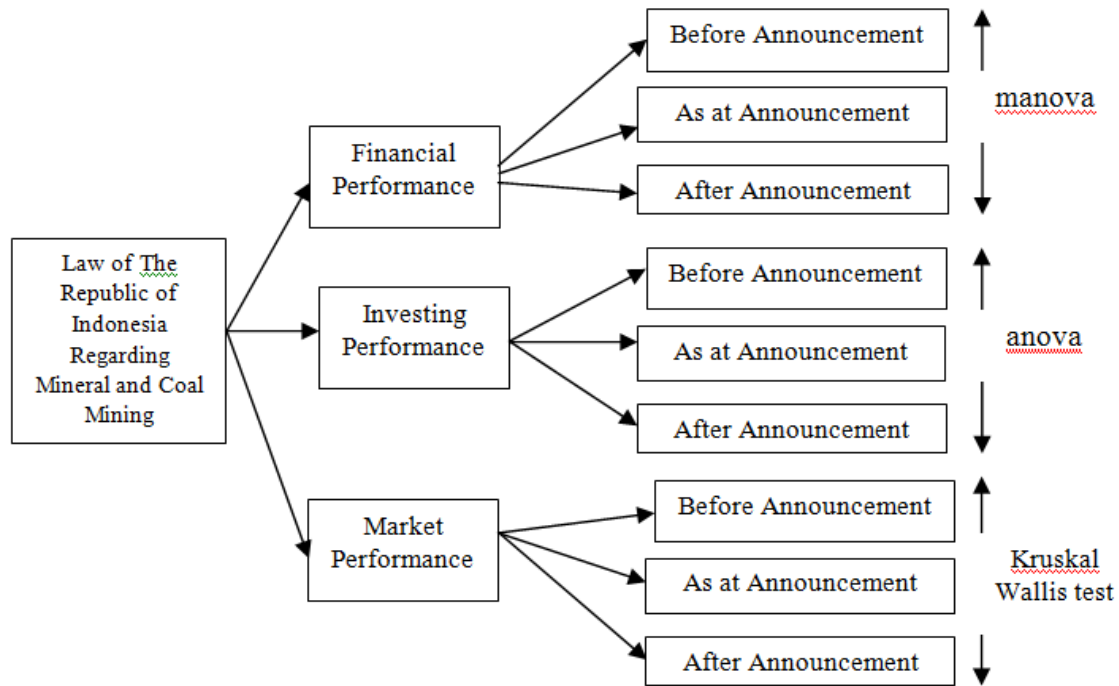
R_{it} = actual rate of return on security i during period t

$E(R_{it})$ = expected rate of return on security i during period t, based on index model relationship (also define as market return)

Investing ratio:

Investing ratio used in this research is operating investing activity ratio. According to Tulasi (2006), investing ratio determines company's ability and willingness to invest on a certain period. Operating investing activity ratio compares between investment on property, plant, and equipment (fixed assets) which are used on operational activity to total assets. According to Feldstein et. al. (2007), company's investment performance is measured by calculating (change in PPE)/assets. The investing activity ratio on this research is formulated below.

$$\text{Operating investing activity ratio} = \frac{\text{netproperty ,plantandequipment}}{\text{totalasset}}$$

Theoretical Framework:**Hypotheses:**

Based from the literature reviews, three hypotheses were formulated on this research.

H1 : There is significance difference of mining company's current ratio, working capital turnover ratio, debt to asset and return to asset ratio before, as at, and after the announcement of Law of The Republic of Indonesia Regarding Mineral and Coal Mining.

H2 : There is significance difference of mining company's investing activity ratio before, as at, and after the announcement of Law of The Republic of Indonesia Regarding Mineral and Coal Mining.

H3 : There is significance difference of mining company's abnormal return before, as at, and after the announcement of Law of The Republic of Indonesia Regarding Mineral and Coal Mining.

Research Methods:-**Population and Sample:**

This research used financial report and stock trading report of Indonesia Stock Exchange listed mining companies on 2008 – 2014 periods as samples using purposive sampling method. This research set the following criteria for samples:

1. Companies which published financial report on the assigned periods.
2. Companies which had complete stock trade report on the assigned periods.

Based on those criteria, 33 public companies are picked as samples. The research divided the samples into three period groups which are before, as at, and after the announcement of Law of The Republic of Indonesia Regarding Mineral and Coal Mining. Especially for after the announcement period, the research used the average value for each variable started from 2010 and finished on 2014.

Data sources:

Company's financial data used in this research is acquired from Indonesia Capital Market Directory, company's financial report, company's annual report, and yahoo finance.

Analysis Method:

This research uses statistic analysis method. H1 argue that there is significance difference of company's current ratio, working capital turnover ratio, debt to asset and return to asset ratio before, as at, and after the announcement of Law of The Republic of Indonesia Regarding Mineral and Coal Mining. The difference of these three periods of

financial ratios is tested using multivariate analysis of variance (manova). Manova is considered as an appropriate method because the research compares financial ratio variable (contains four groups) and period variable (contains three groups). Manova needs several precondition tests, such as: normality test, separate variance homogeneity test, and simultaneously variance homogeneity test in order to make sure that the model meet several manova assumptions. H2 is tested using analysis of variance (anova) because H2 compares three period groups. Anova needs precondition test, which is variance homogeneity test. H3 is tested using Kruskal Wallis test. Kruskal Wallis test is nonparametric statistic test, so it still can be applied to test H3 even though H3 fails to meet variance homogeneity test or if there is any problem with data normality. The research's analysis methods are listed on table 3.

Table 3:- Analysis Method.

Hypotheses	Method	Precondition test	Type of test	Precondition test decision making	Hypotheses test decision making
H ₁	MANOVA	Normality	Kolmogorov Smirnov	<ul style="list-style-type: none"> sig. > 0,05 ; normal distribution. sig. < 0,05 ; abnormal distribution. 	<ul style="list-style-type: none"> sig. < 0,05 then H₀ is rejected. sig > 0,05 then H₀ is accepted.
		Separate variance homogeneity test	Levene Test	<ul style="list-style-type: none"> sig. > 0,05 ; equal variance. sig. < 0,05 ; unequal variance. 	
		Simultaneously variance homogeneity test	Box's M Test	<ul style="list-style-type: none"> sig. > 0,05 ; equal covariance matrix sig. < 0,05 ; unequal covariance matrix 	
H ₂	ANOVA	Variance homogeneity test	Levene Test	<ul style="list-style-type: none"> sig. > 0,05 ; equal variance. sig. < 0,05 ; unequal variance. 	<ul style="list-style-type: none"> sig. < 0,05 then H₀ is rejected. sig > 0,05 then H₀ is accepted.

Source: Hair et. al. (2006)

Findings:

Precondition Test:

Precondition test results for manova analysis model are provided below.

Table 4:- Precondition Test Results.

Hypotheses	Method	Type of Test	Result	Explanation
H ₁	MANOVA	Kolmogorov Smirnov		
		CR	0,000	Abnormal distribution
		WCTO	0,000	Abnormal distribution
		DAR	0,000	Abnormal distribution
		ROA	0,004	Abnormal distribution
		Levene Test		
		CR	0,209	Homogeneous variance
		WCTO	0,335	Homogeneous variance
		DAR	0,078	Homogeneous variance
		ROA	0,811	Homogeneous variance
		Box's M Test	0,000	Heterogeneous variance

H ₂	ANOVA	Levene Test	0,720	Homogeneous variance
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Source: Data Processing

Precondition test results of manova analysis model (first hypothesis) show that the model has equal variance with unequal covariance matrix. According to Gozali (2011), manova analysis model is still robust to be tested, although precondition test results are failed to fulfill normality and variance homogeneity assumptions. Precondition test results of anova analysis model (second hypothesis) show that the model has homogeneous (equal) variance. So, the anova analysis model for second hypothesis is valid.

Manova Analysis:

H1 is tested using multivariate analysis of variance. The results are provided on table 4.

Table 4:- MANOVA Analysis Results.

Effect	Value	F	Sig.	Explanation
Pillai's Trace	0,050	0,605	0,773	H ₀ is accepted
Wilks' Lambda	0,950	0,602	0,775	H ₀ is accepted
Hotelling's Trace	0,052	0,600	0,777	H ₀ is accepted
Roy's Largest Root	0,045	1,047	0,387	H ₀ is accepted
Test of Between Subjects				
CR	-	0,477	0,622	H ₀ is accepted
WCTO	-	0,018	0,983	H ₀ is accepted
DAR	-	0,867	0,424	H ₀ is accepted
ROA	-	0,987	0,376	H ₀ is accepted

Source: Data processing.

Multivariate analysis of variance results show that H₀ is accepted. It means that there is no significant difference of company's current ratio, working capital turnover ratio, debt to asset and return to asset ratio before, as at, and after the announcement of Law of The Republic of Indonesia Regarding Mineral and Coal Mining. Furthermore, test of between subjects reveal that there is no significant difference for all four financial ratios which is caused by different period. These results reveal that Law of The Republic of Indonesia Regarding Mineral and Coal Mining did not make any significant difference impact on company's financial performance.

ANOVA Analysis

H2 is tested using analysis of variance (anova). The results are provided on table 5.

Table 5:- ANOVA Analysis Results.

	Mean Square	F	Sig.
Between Groups	1428,313	1,271	0,285
Within Groups	1123,904		

Source: Data processing.

Analysis of variance results show that sig. value is greater than significance level ($\alpha = 0,05$), then H₀ is accepted. It means that there is no significant difference of company's investing activity ratio before, as at, and after the announcement of Law of The Republic of Indonesia Regarding Mineral and Coal Mining. These results reveal that Law of The Republic of Indonesia Regarding Mineral and Coal Mining did not attract mining companies to make a significant greater investment on building any other processing plants in order to fulfill refinery mining resources regulation.

Kruskal Wallis test

H3 is tested using Kruskal Wallis test. The results are provided on the table 6.

Table 6:- Kruskal Wallis Test Results.

	Abnormal Return
Chi Square	6,056

Df	2
Sig.	0,048

Source: Data processing.

Kruskal Wallis test show that sig. value is less than significance level ($\alpha = 0,05$), then H_0 is rejected and H_3 is accepted. It means that there is significant difference of company's abnormal return before, as at, and after the announcement of Law of Republic of Indonesia Regarding Mineral and Coal Mining. Further post hoc test is needed because Kruskal Wallis test can not reveal which pair specifically is significant different, whether higher or lower. Wilcoxon Signed Rank Test is applied as post hoc test of Kruskal Wallis test. The results are on table 7.

Table 7:- Wilcoxon Signed Rank Analysis Results.

Hypotheses	Pair	Z	Sig.	Explanation	Rank		Explanation
					-	+	
H ₃₁	Before – As at	-0,027	0,979	H ₀ is accepted	16	17	Before < As at
H ₃₂	As at – After	-0,974	0,330	H ₀ is accepted	18	15	As at > After
H ₃₃	Before - After	-2,957	0,003	H ₀ is rejected	25	8	Before > After

Source: Data processing.

Wilcoxon signed rank test analysis results show that only H₃₃ is accepted and the two others are rejected. They mean that significant difference of abnormal return exist only when comparison period between before and after the announcement of Law of Republic of Indonesia Regarding Mineral and Coal Mining. There is no significant difference of abnormal return on other comparison periods.

Since only H₃₃ is accepted, the significant difference of abnormal return only exists on before and after the announcement of Law of Republic of Indonesia Regarding Mineral and Coal Mining. The abnormal return before the announcement of Law of Republic of Indonesia Regarding Mineral and Coal Mining is significant higher than after. Although, wilcoxon signed rank test shows the abnormal return before is lower than as at the announcement of Law of Republic of Indonesia Regarding Mineral and Coal Mining, the difference is not significant. It also happened on as at and after periods, although abnormal return as at the announcement of Law of Republic of Indonesia Regarding Mineral and Coal Mining is higher than after, it is not significant.

Analysis And Discussion:-

The Effect Of Mining Regulation To Financial Performance Of Mining Companies In Indonesia:

The Law of Republic of Indonesia Regarding Mineral and Coal Mining is aiming for the prosperity of all Indonesia people, stakeholders inclusive. It means that the law should be benefitted also for mining companies which operated in Indonesia. The relationship between the government and the private mining companies is aimed to be like a mutualism symbiosis. One of the most important part of The Law of Republic of Indonesia Regarding Mineral and Coal Mining is the mining companies shall be required to perform processing and refining of domestic mining production. Actually it gives burden for mining companies to invest more than before. But, it is actually benefitted for the company itself on the long term. The mining companies will benefit from the higher selling price because they are no longer selling raw materials or resources, but they have added more values on their products or resources because of the further processing required. This will improve sales value and higher profit margin. If the mining companies can take control mining industrial from upstream to downstream, they may operate more efficient so that they can reduce their cost and increase the profit margin. They can maintain their sustainability on the long term. The government has been very clear stated that mining companies should be more serious cooperating with the government for long term and if they really want having serious business in mining, they should invest more and give fair contribution for the government. The government will also assure and provide them with conducive business climate. Based on those conditions, it is argued that there would be a significant difference of company's financial performance before, as at, and after the announcement of Law of The Republic of Indonesia Regarding Mineral and Coal Mining.

Data analysis shows that there is no significant difference of company's current ratio, working capital turnover ratio, debt to asset and return to asset ratio before, as at, and after the announcement of Law of The Republic of Indonesia Regarding Mineral and Coal Mining. It means that the new law did not change any significant company's financial performance. Mining companies did not respond it well. At the beginning, it is argued that if the mining companies

respond the law by investing more by build further processing or refinery plant, their financial performance should be under pressure because they have to look for their investment financing, whether it comes from external or internal. This cost of finance will press their financial performance. But, it seems not happened on the fact.

According to Law of The Republic of Indonesia Regarding Mineral and Coal Mining Article 129, mining companies shall be required to pay 4% (four percent) of their net profit to the state and 6% (six percent) of their net profit to regional governments, instead of royalty and other taxes. This should give additional burden to company's financial performance. But, it also seems not happened based on data analysis since there is no significant difference. It is argued that the mining companies increased their sales volume in a certain number to offset this cost.

Investing Activity Of Mining Companies In Indonesia On Preparation Period:

One of the main purpose of Law of The Republic of Indonesia Regarding Mineral and Coal Mining is to increase number of smelter and give value added to Indonesia mining resources before they are sold. The government also aims for the multiplier effect coming from this additional investment, for example like reduce unemployment and improve society's welfare around mining area. If the law really attracts mining companies to invest more than before, there should be significant difference of company's investing activity ratio.

Data analysis shows that there is no significant difference of company's investing activity ratio before, as at, and after the announcement of Law of The Republic of Indonesia Regarding Mineral and Coal Mining. So, in fact this new law was not attractive enough to persuade mining companies to establish significant investment on further smelter. Even though the mining companies had invested to build further smelter, the number of investment is not significant. It is argued that the declining of commodity prices made mining companies reluctant to take more risk in investing on further smelter. The mining companies may postpone their investment until the commodity prices are recovered and the feasibility study shows enough interesting potential return of new smelter investment.

The mining companies also wait and see for government consistency on implementation of Law of Republic of Indonesia Regarding Mineral and Coal Mining. Actually it is not the failure of the law, but the announcement time of the law is not fit with the mining condition. The law is announced at the time when the commodity prices are dropped. The government may postpone the implementation of Law of Republic of Indonesia Regarding Mineral and Coal Mining and wait until the commodity prices are recovered and attractive enough for mining companies to invest and build further smelter.

Market Performance Of Mining Companies In Indonesia On Preparation Period:

It is predicted that Law of Republic of Indonesia Regarding Mineral and Coal Mining should be good news for mining companies because it can create security climate in mining industry and increase investor's confidence to buy mining stocks. Data analysis shows that there is significant difference of company's abnormal return before, as at, and after the announcement of Law of Republic of Indonesia Regarding Mineral and Coal Mining.

Further data analysis shows that significant difference of abnormal return exist only when comparison period between before and after the announcement of Law of Republic of Indonesia Regarding Mineral and Coal Mining. There is no significant difference between before and as at the announcement of Law of Republic of Indonesia Regarding Mineral and Coal Mining. So do when as at and after. The abnormal return before the announcement of Law of Republic of Indonesia Regarding Mineral and Coal Mining is significant higher than after. It means that the announcement of Law of Republic of Indonesia Regarding Mineral and Coal Mining gives bad signal for investors, especially for mining company stocks. It is also argued that declining of commodity prices along 2011 until 2014 also being the cause of declining of mining companies stocks at the same periods. The announcement of Law of Republic of Indonesia Regarding Mineral and Coal Mining is still not good enough to increase the mining stock prices.

Conclusion And Recommendation:-

Law of Republic of Indonesia Regarding Mineral and Coal Mining was launched to uphold The 1945 Constitution of the Republic of Indonesia Article 33, which is stated that land, water as well as natural riches are to be controlled by the state to be exploited to the greatest benefit of people. Thus, this new rule is supposed to benefit government, mining companies, and people of Indonesia. Even though mining companies may be pressured on short term looking to finance their investment on required smelter, it can benefit mining companies themselves on long term because they can add more values on their mining products. This rule also gives certainty in mining business and create

better investment climate. It is expected that there would be no more disruptive problem on mining area because Law of Republic of Indonesia Regarding Mineral and Coal Mining has set certain provision regulating mining industry. This may be a good momentum for mining companies to investing their future in Indonesia.

Data analysis shows that there is no significant difference of company's financial performance before, as at, and after the announcement of Law of The Republic of Indonesia Regarding Mineral and Coal Mining. There is also no significant difference of company's investing activity before, as at, and after the announcement of Law of The Republic of Indonesia Regarding Mineral and Coal Mining. Investors also respond it quite bad. The abnormal return before the announcement of Law of Republic of Indonesia Regarding Mineral and Coal Mining is significant higher than after.

Actually, it may not mean that the new law is bad or not attractive enough, but it may be launched in disadvantage condition for mining industry as the commodity price fall on early year 2011. It is better to postpone the implementation and wait until commodity prices recovered, so that investing more in mining industry will be attractive and feasible again. It is predicted that if Law of The Republic of Indonesia Regarding Mineral and Coal Mining is launched on right time, mining companies may respond positive on it and eager to build much more smelter for the future. Investors will be enthusiastic to buy mining stocks as well as they offer great potential profitability on the future.

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