

CHAPTER I

INTRODUCTION

1.1 Research Background

Globally, privatization of State-Owned Enterprises (SOEs) has yielded many empirical studies evaluating its impact on financial and operating performance. Several previous studies (Megginson *et al.*, 1994; Boubakri and Cosset, 1998; Georganou, 2013; Ferreira, 2012; Omran, 2002; Abdullahi *et al.*, 2012) document that privatization has succeeded in increasing the financial and operating performance of the firms. Megginson *et al.* (1994), for instance, when examining the financial and operating performance of 61 companies from 18 countries, find significant improvement in firm's performance following privatization.

This is also supported by Boubakri and Cosset (1998), that evaluate privatization impact on financial and operating performance of 79 companies over the period 1980 to 1992. The study documents significant improvement in some financial indicators after privatization.

The impact of privatization in Indonesia has been examined by some researchers, such as Damayanti (2017), Putri *et al.* (2013), Prastyo (2012), Widjajanti (2012), and Setiyowati (2010). However, the findings are various and contrary. Some discover significant improvement and some do not for the same financial indicator. For instance, Putri *et al.* (2013) document significant difference in ROE, Current Ratio, and Total Asset Turnover, meanwhile Damayanti (2017) document insignificant difference for those indicators. The results could be different as there are limitations in the

number of sample, the period of observation, and the performance indicators employed. For example, Damayanti (2017), Widjanti (2012), and Setiyowati (2010) only take two years of observation period. Therefore, this study offers research with the expansion in those three key differences.

The aim of this study is to examine the impact of partial privatization on financial and operating performance of newly privatized firms in Indonesia during 1995- 2013. The study attempts to look at the changes of financial indicators prior and after privatization and compare whether there is any significant difference. The study follow the techniques of Megginson *et al.* (1994) by calculating the mean value of each variable for each firm and using Wilcoxon signed- rank test in order to determine the significant changes in variables over the period of before and after privatization.

Indonesian SOEs are taken as the research object for some reasons. First, the implementation of privatization strategy in Indonesia is still actively debated. Indonesia has been cautiously privatized its SOEs. It is reflected by only twenty of its 118 SOEs had been privatized by 2016. Furthermore, SOEs have played an important role in Indonesia and become a central part in the country's development strategy. SOEs have contributed in decreasing the number of unemployment by employing the large numbers of employees. Not only that, SOEs have also spread over the most important business sectors such as cement, pharmaceutical, telecommunication, mining, real estate, construction, transportation, electricity, agriculture, finance, and so forth (Yonnedi, 2010). Thus, the application of privatization programs in Indonesia affects multiple implications.

Hence, it is necessary to examine the impact of privatization on the financial and operating performance to the newly privatized SOEs in Indonesia. This study contributes to the literature on privatization as it adds empirical evidence about the impact of privatization to the Indonesian SOEs. Moreover, the results of this study could be used as a consideration for the governments and managers in making decision about the privatization program.

1.2 Problem Statement

Based on the above description, the problems to be studied are:

1. What is the financial and operating performance of Indonesian SOEs before and after the privatization period?
2. Is there any significant difference of financial and operating performance of Indonesian SOEs before and after the privatization period?

1.3 Research Objectives

This study is designed to:

1. Examine the financial and operating performance of Indonesian SOEs before and after the privatization period.
2. Examine whether there is a significant difference of financial and operating performance of Indonesian SOEs before and after the privatization period.

1.4 Research Benefits

The researcher expects that the results of this study could be used:

1. For the Ministry of SOEs, this research will give information about the financial and operating performance of privatized firms and the result of

this research can be used as a consideration in applying privatization policies.

2. For the privatized and non privatized firms, the result of this research will show the financial and operating performance change before and after privatization period and give the consideration before the firms come into the privatization strategy.
3. For the investors and potential investors, the result of this study could be used as a reference to find out the SOEs' performance before making any investments.
4. For the next researchers, this research will give information about the financial and operating performance of Indonesian SOEs before and after the privatization period which could be used as a reference for the next study.

1.5 Writing Systematic

The research is organized as follows. The first chapter presents the reasons to conduct the research about the impact of privatization on financial and operating performance in Indonesia. This is followed by the objectives and benefits of the study, as well as writing systematic of the research. The next chapter explains privatization in general and reviews the agency, property rights, and transaction cost theory which is relevant to privatization. This is continued by discussing several previous research about privatization, the research framework and hypothesis development.

The third chapter presents the research methodology. It presents the research design, variables and operational definition, population and sample,

types and sources of data, methods of data collection, and data analysis methods. The next chapter presents the empirical findings together with the discussion and the last chapter concludes the results, limitations, and recommendation of the research.

