

Does Privatization Affect Organizational Change: A Case of Indonesia^{*}

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Abstract: *This study examines the relationship between privatization of state-owned enterprises (SOEs), organizational change and performance. It explores the processes in which privatization affects corporate performance through the internal changes within organizations in a developing country context. The field study for the research, which took place in Indonesia, utilized a survey questionnaire from 86 managers in 86 organizations, comprised of SOEs, privatized firms and private enterprises. Cross-sectional analysis shows that there had been a statistical significant difference across the types of ownership pertaining to organizational elements that were expected to change. The evidence suggested that privatization brought about important alignments among the organization's goals, design elements, and resources and between the organization and its competitive environment. Privatization process altered the behavior, incentives and performance of formerly state-owned enterprises.*

Keywords: Privatization, Organizational Change, Corporate Performance, Indonesia

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1. Introduction to the Study

Privatization has become a global phenomenon and is still among the top priorities in the policy agenda of developing and transitional countries[‡]. Beginning with Margaret Thatcher's Conservative government in the UK at the end of the 1970s, privatization rapidly and forcefully spread over the whole world, including: Latin American and Caribbean, sub-Saharan Africa, Asia Pacific and former Soviet-bloc countries of Central and Eastern Europe (Hodge 2000). The privatization initiatives of the last thirty years have significantly reduced the role of state-owned enterprises (SOEs) in the economic life of many countries. Most of this reduction occurred in developing countries in the 1990s. The SOEs share of 'global GDP' has declined from more than ten percent in 1979 to less than six percent in 2001 (Megginson and Netter 2001).

Privatization is a vehicle for foreign direct investment (FDI). FDI flows into developing countries grew from \$23.7 billion in 1990 to \$166 billion in 1998, a seven-fold increase, helping to contribute to growth in the stock of FDI in developing countries from five percent to 20.5 percent of GDP (United Nations 1999). Turning to the infrastructure sector for example, investment flows to projects with private participation grew dramatically in developing countries between 1990 and 1997, from about \$16 billion to \$120 billion (World Bank 1999). The World Bank Group's Privatization Database showed that privatization in 62 developing countries continued to pick up in 2004 and 2005, with 400

[‡] Privatization has been conceptualized in a broad and narrow sense (Ramamurti 2000). In the broad sense, it refers to any shift of activities or particularly the production of goods and services function from the public to private sector. This includes outsourcing, contracting-out, franchising, privatization of public finance, liberalization and the sale of state property to the private sector (Heald 1984; Pirie 1985). In the narrow sense, privatization represents the sale of state-owned enterprises (SOEs) to the private sector (Ramamurti 2000). The general definition of privatization, advocated by the World Bank and International Monetary Fund (IMF), usually refers to denationalization, particularly the sale of state property to the private sector, including the direct sale of the whole or parts of SOEs to private agents and share issue privatizations (SIPs). This study, unless specifically stated, adopts the general definition of privatization, i.e. the sale of SOEs to the private sector.

transactions worth about US\$ 90 billion (World Bank 2007). Privatization is an irreversible fact for most developing countries.

Theoretical and empirical research has already established the link between changes in ownership (privatization) and corporate performance[§] (see for example Vickers and Yarrow 1988; Boardman and Vinning 1989; Galal et al. 1994; Megginson et al. 1994; Martin and Parker 1997; and Megginson and Netter 2001), but it is less clear how privatization influences organizational change and managerial practices within a firm, and in turn, corporate performance (see for example Parker 1995; Zahra et al. 2000, Cuervo and Villalonga 2000; and Cunha and Cooper 2002).

Organizational level responses to privatization have not been widely studied (Doh 2000; Zahra et al. 2000). The enormous changes in organizational behavior, strategy and structures, systems and incentives (i.e. changes in the ‘black box’) need to be systematically and thoroughly studied in order to gain insights into the transformation processes of SOEs (Martin and Parker 1997; Zahra et al. 2000; Cuervo and Villalonga 2000). The key argument in this paper is that only those privatisation policies that bring about positive organisational changes fundamentally different from SOEs and suitable to a competitive market environment lead to improved firm performance.

The aim of this study is to investigate the changes that privatization trigger within privatized firms. The study attempts to explore three identified organizational and managerial implications of privatization in Indonesia, namely: goals and objectives, corporate governance practices, and organizational structure. The analysis identifies three fruitful avenues of research: first, general theoretical and conceptual frameworks in the extant literature that associate privatization with organizational changes and practices; second,

[§] There has been little agreement on the definition of performance in the management field in general (Barney 1996), and little agreement over state-owned firms in particular (Ramamurti 1986). Nevertheless, organizational performance in the privatization literature has been predominantly (not exclusively) concerned with financial and operating performance (Megginson et al. 1994; Boardman and Vinning 1989; Galal et al. 1994).

empirical studies that examine organizational changes and practices resulting from the privatization of SOEs in developing economy contexts; and third, policy implications for the privatization of SOEs and the management of public enterprises in Indonesia and developing countries.

The study is based on Indonesia's experience in public enterprise restructuring and privatization programs. The Indonesian SOE sector has recently undergone restructuring and privatization programs. The choice of Indonesia as a candidate for studying the relationship between ownership change, organizational change and performance in a developing country is justified for a number of reasons. First, for historical and economic reasons, Indonesia has built-up large SOEs, which have played a significance role in the economy. The size, scale and scope of SOEs have expanded over time since Indonesia's independence in 1945 and they have become a central part in the country's development strategy. The size of public enterprise is large and accounted for approximately 15 percent of GDP in 1995. At this time, SOEs employed approximately one million employees, equivalent to 1.4 percent of the labor force (World Bank 1994), or equivalent to 25 percent of the Indonesia's civil servants in 1992 (Hill 2000)** . Not only have SOEs employed the large numbers of employees, but they have also operated in some of the most important industries such as electricity, cement, telecommunications, banks and insurance, finance, transport, agriculture, consultancy services, construction, energy, aircraft, ships and ports. SOEs provide essential raw materials and dominate capital-intensive sectors as power, steel, chemicals, and machinery. Thus, public enterprise reforms and privatization affect multiple stakeholders including public enterprise managers, employees, the government and society at large.

Second, an appropriate amount of time has elapsed since the early privatization initiatives in 1991 to begin to explore and assess the organizational and performance implications of privatization programs. Third, though recognizing the importance of

** As comparison, an average size of SOEs to GDP in 1978-1991 was 9.9 percent in Korea, 1.9 percent in Philippines, and 7.0 percent in India (Shirley 1999).

privatization in increasing firms' efficiency, Indonesia has been relatively cautious in its privatization efforts. Only six of its 125 SOEs had been partially privatized through initial public offerings (IPOs) by 2003. Therefore, privatization in Indonesia is still in its infancy and its validity as part of a long-term development strategy is still being actively debated. This study, concerned with the organizational implications of privatization, will add perspectives to those debating the consequences of privatization in Indonesia.

Finally, there is a need to analyze, at the micro-institutional level, organizational change and the transformation of Indonesia's SOEs. Research on the impact of privatization on organizational change and performance would help managers understand the nature of the transformation process, taking place during ownership change. An important by-product of privatization and public enterprise restructuring programs in Indonesia is the growing demand for effective managers in both SOEs and privatized firms.

The rest of the article is structured as follows. The next section takes the form of a review of relevant literature on organizational and managerial implications of privatization. It presents the theoretical frameworks of the study and outlines the general proposition of the analysis. Following this review, the methodology and empirical findings of the study are presented together with a concluding discussion.

2. Theoretical framework: organizational and managerial implications of privatization

In explaining organizational and managerial implications of privatization, there are three theoretical foundations that have been taken from economic and organization research. These foundations relate to agency, public choice and property rights (Vickers and Yarrow 1988; Martin and Parker 1997; and Hodge 2000). These central theoretical foundations are captured in Table 1. On balance, privatization theories centrally posit that privatization increases corporate performance (that is, the firm's efficiency), though they say little about what

happened within organizations in the search for that corporate performance. However, privatization theories indicate potential organizational and managerial implications of privatization, that is, the changes in managerial incentives, corporate governance, and organizational structures. The content of organizational changes as a result of privatization is mainly unexplored.

[INSERT TABLE 1 ABOUT HERE]

Both agency and public choice theorists, for example, anticipate that privatization will induce changes in managerial incentives, corporate governance and information and control systems. Agency theorists focus on the different agency problems and solutions to them that are available under each form of ownership. The theory argues that the agent (management) is assumed to have a divergent goal (often conflicting goals) with the owners (principals). The so-called 'agency problems' can be more effectively alleviated in private ownership through its most efficient information and incentive structure (Fama and Jensen 1983; Berle and Means 1932).

It has been argued that private enterprises have developed better mechanisms in solving agency problems through external control mechanisms (for example, markets for manager, capital, and corporate control) and internal control mechanisms (for example, managerial participation in ownership, reward systems and the board of directors) (Shleifer and Vishny 1997). Vickers and Yarrow (1988) argue that these control mechanisms (external and internal) are virtually absent in the SOE sector. Cuervo and Villalonga (2000) claim that the owner-manager relationship is broken down into two agency relationships, the first being the public as owners-to-politicians and the second the public being politicians-to-managers, which effectively weaken the control mechanisms.

Public choice theorists focus more on the agency problems in SOEs between the public and politicians. Politicians might impose political, economic and social goals over SOEs (Buchanan 1972; Niskanen 1971). For the public, the cost of the State's monitoring of public enterprises is likely offset the benefits of State ownership of these enterprises (Cuervo and Villalonga 2000). This is not the case for other interest groups such as unions and politically connected people or institutions (for example military groups in Indonesia) where SOEs are an easy target for rent-seeking activities. Hence, public choice theory attributes the inefficiency of SOEs to its vulnerability to detrimental intervention of self-interested maximizing politicians or bureaucrats.

Furthermore, property rights theorists argue that the more direct and less attenuated are the rights to property the better the assets will be used (Hodge 2000). For example, Lindblom (1977, 26) stated: "Property is a set of rights to control assets." Martin and Parker (1997) argue that the property rights literature places heavy emphasis upon the attenuation of property rights where public ownership exists. The basic prediction from those who hold the property rights view of privatization is that private organizations in which rights to profits are clearly defined will perform better than those in the public sector where rights are diffused and uncertain (Alchian 1965; De Alessi 1980). It is argued by these writers that property rights uniquely featured in private ownership create incentives for profitability.

Therefore, central to the basic prediction of privatization theories about efficiency improvement is the assumption that a change in ownership and the introduction of competition will trigger significant change within the privatized firms, making them more responsive to external demands and creating more incentives for management to search out internal cost savings. Agency, public choice and property rights theory provides a strong indication that privatization is likely to alter the basic elements of SOEs, that is, the firm's goals and objectives, corporate governance practices, incentives structures and control, strategy and organizational structures. The impact of privatization on corporate performance

(efficiency) hinges on the changes of those organizational characteristics (Martin and Parker 1997; Andrews and Dowling 1998; Cuervo and Villalonga 2000; Zahra et al. 2000).

Agency, property rights and public choice theory offers a theoretical basis for the expectations presented in the conceptual framework captured in Figure 1. Overall, this study argues that both economic theory and organization theory predict that only those privatization policies that bring about positive organizational changes fundamentally different from state-owned enterprises and suitable to competitive market environment lead to sustainable efficiency improvement. Goals, corporate governance practices, organizational structure and integration are expected to change as firms move from public to private.

[INSERT FIGURE 1 ABOUT HERE]

In the light of this research framework, the study seeks to provide answers to the following research questions:

- (1) Has there been a change in the organizational goals and objectives following privatization?
- (2) To what extent has the corporate governance practices of the firm changed since privatization?
- (3) What changes have been taken place in organization structure and integration since privatization?

3. Previous Studies and Hypothesis Development

One area in which SOEs can be differentiated from the private enterprises is the nature of their goals and objectives (Martin and Parker 1997). In typical analyses of agency costs in SOEs, researchers rely on the assertion that managers in SOEs focus on the objectives of politicians, rather than maximise enterprise efficiency (Boycko et al. 1996). In SOEs, the goals are blurred, multiple, conflicting and unstable, and include both financial and political objectives. This view is well established in the literature (for example, Parker 1995; Boycko et al. 1996). However, it has been widely acknowledged that the goal in private firms is clearer and related to profit maximisation and value creation for shareholders (Martin and Parker 1997).

Martin and Parker (1997) contend that apart from commercial goals, some SOEs may include macro-economic goals concerned with some issues as employment, inflation, equity and so forth. This is certainly true in the Indonesian case where SOEs are viewed as a business entity and the government tool to realise macro-economic objectives. Aharoni (1986) added that in private firms, managers' main goals are the pursuit of long term profits for their shareholders. SOEs are predicted to be low performers because politicians impose objectives on them which may help them gain votes but conflict with efficiency and customer orientation (Buchanan 1974; Niskanen 1971).

Following privatisation, senior managers have discretion to redefine organisational goals to reflect the objectives of their key stakeholders (Yarrow 1986). A new dynamic would occur by freeing political intervention and facing a new environment. This will stipulate firms should put more emphasis on commercial activities and maximise enterprise efficiency (Martin and Parker 1997). The new goals may reflect a change in power relationships in the organisation (Parker 1995). As firms move from public to private, it is expected that privatisation changes organisational mission and goals that put more emphasis on the search for the efficiency, customer satisfaction and reduce social consideration (Shleifer and Vishny 1994).

In SOEs such as in Indonesia, the goals and objectives may change frequently with consequent loss of consistency in strategic direction. This loss of strategic direction is usually as a result of frequent changes at the top level of the organisation; brought about by shifts in policy by the political party in power or changes in the minister responsible for the SOEs. Following the privatisation process, a reduced turn over at top management level will likely lead to some sense of stability with consequent continuity in strategic direction. To this end, public choice and agency theorists emphasise goals and controls as the central variables upon which the privatisation-performance relationship hinges (Cuervo and Villalonga 2000).

In light of the above review, the following hypothesis is offered:

Hypothesis 1: As firms move from public to private, the organisational goals and objectives change toward a greater emphasis on commercial, efficiency and customer focus goals.

From a corporate governance view, the benefits of ownership change could be explained in several ways. Firstly, managers in privatised firms have to achieve a successful transfer from public to private governance and must implement numerous policies in order to achieve expected gains in performance (Cuervo and Villalonga 2000). Managers should develop strategies based on analysis of industry and market and technological opportunities. Following privatisation, managers are expected to have the discretion to redefine the organisational goals to reflect the objectives of their key stakeholders (Yarrow 1986).

Secondly, the benefit of privatisation can be achieved by delegating management functions to professional managers who have the required training and knowledge at all levels of the company. The separation of ownership and management could, however, encourage management to be largely unaccountable to equity holders and to pursue its own interests at the shareholders' expense (agency costs). Privatised companies could develop internal and external control mechanisms that reduce the losses associated with the separation of ownership from management (Shleifer and Vishny 1997). Internal control mechanisms in

which incentives and monitoring devices are established encourage professional managers to act in the shareholders' best interest. When internal control mechanisms work well, the board of directors changes the top management as needed in the best interest of the corporation. When internal control mechanisms are deficient, however, external control mechanisms (through stock prices, takeovers, and relation based control) may be used to realign managers' interests with those of investors (Cuervo and Villalonga 2000).

As predicted in agency theory, control mechanisms in private firms can be expected to be more effective than those in SOEs, since the internal control departments and boards of directors who exercise control in private firms usually are better informed than their counterparts in SOEs (Dharwadkar et al. 2000). The objectives of boards and internal control departments are also more aligned to those of firm owners' than are the objectives of external agencies in general.

Thirdly, the characteristics of corporate governance may change the manner in which the government influences SOEs. It has been widely accepted that the degree of external and political intervention in the public sector is usually higher than the private sector. This makes SOEs very susceptible to arbitrary political involvement by ministers, politicians and public servants. Public managers elsewhere have to report to different ministers and inspectors. They have to consult with technical ministers for some decisions involving huge sum of financial outlay. Their operations are scrutinized and controlled by different agencies in the government. Some of the controls are financial in nature, specifying performance quotas and targets. As Parker (2000) argues, it is difficult to distinguish who the principal is for a SOE. This creates a complexity in decision-making and confusion for managers. Managers of SOEs usually have limited discretion to initiate and implement strategic changes (Martin and Parker 1997) and are constrained by bureaucratic controls that limit their scope of activities and authority.

Another expected shift in the corporate governance practices is a change in criteria of the Boards' appointment. The overhaul of top level management in the privatised firms is expected (Martin and Parker 1997; Cuervo and Villalonga 2000) in order to achieve a successful transformation from public sector mindset to private sector culture. Managers with private sector experiences—equipped by necessary skills in business development and venture, marketing and finance-- are needed to capitalise on market and technological opportunities. The appointment of top level management in newly privatised firms would be based on past experience in commerce rather than those with influence and political connections. In Indonesia, the President through the Ministry of Finance has effective powers to appoint the board of commissioners, and board of directors of all SOEs. SOEs have often been used as employment creation for politicians.

Fifthly, a study by Gupta (2005) contended that in the private sector corporate governance mechanisms often ensure that managerial behaviour is monitored and controlled through market mechanisms such as share prices, prospective investors and the media. This may explain why share issue privatisations can lead to a significant impact on the efficiency of the enterprises. However, researchers have underlined that developing countries lack market-supporting institutions. In this case, managers may rely largely on layoffs and on increasing sales to bring companies to profitability. Even when widely dispersed and individually weak shareholders intend to replace incumbent management, they lack the ability to attract appropriately qualified managerial candidates, and they generally fail to provide management with the support it needs to implement drastic turnaround in operations and in culture (Dharwadkar et al. 2000).

Cook and Kirkpatrick (1988) pointed out a number of reasons why privatisation in the form of a change of ownership may have a significant impact on the productive efficiency of enterprises. They concluded that the change in ownership will: firstly, lessen the scope for political intervention in the operation of enterprises and simplify objectives; secondly,

improve the incentives for productive efficiency performance; and thirdly, impose the discipline of the private capital market on the enterprise, thereby improving productive efficiency.

In relation to Indonesia on the 'political intervention' point for example, the Ministry of Finance along side the technical minister have to approve all strategic moves such as diversification, geographic growth, human resource management, product change and leadership change through a bureaucratic system that foils any resemblance of proactive strategy making. The governance of SOEs is merely a bureaucratic system, frequently composed of administrators that emphasise control, either through the political agenda or trivial issues such as line-item budgetary expenditures, maintenance or procurement procedures.

To this end, privatisation is expected to shift corporate governance practices as the SOE becomes a typical private sector company. Having considered the above literature, in order to explore some aspect of corporate governance this work argues that:

Hypothesis 2: Privatisation will lead to improved corporate governance characteristics in order to support the new organisational objectives. The level of political influence is expected to decline in strategic decision-making and board appointments will be based on professionalism.

Successful organisations are known to be remarkably consistent in their ability to be able to achieve a viable alignment with their relevant environment (eg: Hamel and Prahalad 1994). Organisational structure that facilitates faster decision-making and integrates individuals/units in the organisation is important following privatisation. Donaldson (1996) defines organisational structure as the recurrent relationships between the various members of an organisation. The organisational structure formally and informally identifies: authority and

reporting relationships; who has resources; who is accountable for what; and how knowledge flows around the organisation. It is a central task for the organisation to implement its strategy and accomplish its objectives. Donaldson (2001) mentioned that the dominant approach to structure has been grounded in contingency theory. The heart of the argument is that the best form of structure depends upon the particular demands (contingencies) faced by an organisation. Wide ranges of contingencies have appeared in the literature such as: organisational size (Pugh and Hickson 1976); operational technology (Woodward 1965); organisational environment (Donaldson, 2001); diversification strategy (Chandler, 1962); internationalisation (Stopford and Wells 1972). In brief, structure is a key component in the web of factors determining organisational performance (Whittington 2003: 323). The extent to which organisational structure might change because of privatisation remains an open debate, in fact, it has not yet been clarified in the organisational literature. Thus the question arises, what are the changes in the organisational structures in the post-privatisation period?

The stereotype of public enterprises structure is that SOEs are bureaucratic, inflexible, rigid and unable to adapt to the external environment. Politically controlled bodies have politically defined structures (Parker 1995; Martin and Parker 1997)—these are likely to be non-optimal after privatisation. Therefore, it is expected that as firms move from public to private, there will be a change in organisational structure (Parker 1995). Furthermore, drawing upon the field of managerial economics and strategy writers, Parker contended that privatisation is associated with a movement from a functional form of organisation to control inputs and outputs for the whole organisation, and usually requiring activities arranged in profit or cost centres. Privatisation is associated with the move to a flattening of the managerial pyramid and an ‘m-form’, rather ‘u-form’ structure (Martin and Parker 1997).

Furthermore, by releasing managers from politicians' control; privatisation may free managers to exercise their latent managerial talent (Shleifer and Vishny 1994). Middle-level managers, for example, whose main role under state ownership was one of mere

administrative control, might find their jobs content changed as they become responsible for implementing changes and for coordinating and motivating the teams they supervise.

According to Zahra et al (2000), Parker (1995) and Cuervo and Villalonga (2000) privatised companies also change their organisational structures to ensure faster decision making by eliminating layers of management and reducing bureaucratic rules, and integrating individuals/units in the organisation. Flatter organisational structures, therefore, are more common in privatised companies, and they usually facilitate communication and cooperation between individual and units. Improved communication can strengthen employee commitment to the organisation, encouraging employees to be more productive and innovative.

Having considered the above discussion, the following hypothesis is offered:

Hypothesis 3: Privatisation prompts the firm to adopt a flatter and more decentralised organisational structure that facilitates a faster decision-making process.

4. Research Methods

The study was conducted in Indonesia, where the early 1990s witnessed the Government of Indonesia espousing and introducing market liberalization and privatization initiatives. The study sought to investigate the organizational and managerial implications of privatization through examining and comparing organizational and managerial characteristics between SOEs, partial private/privatized firms and full private enterprises. As captured in the conceptual framework, three identified potential impacts of privatization have been selected, namely: goals and objectives, corporate governance, and organizational structure.

The findings presented in this article were drawn from primary data from mailed survey questionnaire results. In the absence of archival data, particularly of organizational and managerial implications of privatization, self-reported measures are acceptable and are

often equally reliable provided that data reliability is examined (Nath and Gruca 1997). The questionnaire was administered to SOEs, privatized firms and private enterprises^{††}.

Privatized firms populations were a 'rare case' in Indonesia; there were only six privatized firms until 2002^{‡‡} - including telecommunications, bank, cement and mining sectors. There were 125 SOEs and 324 private enterprises in the Jakarta Stock Exchange (JSX) in 2002. The questionnaires were sent to all organizations: with a cover letter explaining the purpose of the study and promising confidentiality. The organizations were offered a summary of the study on request and returned envelopes addressed to the researcher were attached. Follow-up actions through e-mail and mail were undertaken two weeks after the postage date if no response had been obtained. The whole process was conducted entirely by the researcher.

The survey questionnaire contained 31 items pertaining to the organizations' general characteristics and the six identified generic groups: goals and objectives, corporate governance, and organizational structure, together with the three core theoretical constructs of privatization theory. The performance data were based on the managers' judgment. This self-reported performance may be judged as a subjective measure, but previous studies found that there is a strong correlation between self-reported performance and actual data (Dess and Robinson 1984). The 'subjective' method (self-reported performance through survey) has also been employed to capture performance in previous studies in transitional economies (Peng et al. 2004)

^{††} Private enterprises are classified as being solely owned and operated by private sector both domestic and international alliances that trade their share in the stock market, the Jakarta Stock Exchange (JSX). Privatized enterprises are classified as state-owned enterprises that have undergone the divestment program or assets sales. This could be partially or fully privatized. One might categorise this as a mixed enterprises since the entity is owned by public and private shareholders (Boardman and Vining 1989). SOEs are defined as being solely owned by the government whereby the Ministry of State-Owned Enterprises acts as the shareholders, and categorized as a limited liability company.

^{‡‡} This may explain why the study of privatization in Indonesia has focused on addressing the question of the privatization process i.e. why has there been little ownership transfer even though official policy objectives and strategies have been articulated and firms have been selected for potential privatization (Armia 1987; Hendrawan 1996; Djamhari 1997).

The cross-sectional survey was conducted in January – July 2004. The respondents were drawn from the top management of the organizations. By virtue of their position they were the most knowledgeable of the organizational and managerial aspects of the impact of privatization. A total of 49 private, six privatized and 31 public enterprises (86 organizations) returned the completed questionnaire by the cut-off date in late July 2004. This yielded a response rate of approximately 20 percent.

Given the difficulties of obtaining responses to mailed surveys in Indonesia, and the relative controversy of privatization concepts and implementation, the response rate was encouraging both in terms of actual number and percentage. For example, a recent survey study on corporate governance in Indonesia utilised responses from 66 organizations (Nam and Nam 2005). Fahy et al. (2003) achieved a 20 percent response rate in a study involving SOEs and privatized firms. Gowland and Aiken (2003) surveyed the executives of 28 organizations in Australia. Martin and Parker (1997) used seven privatized organizations in the UK. Cunha and Cooper (2002) utilized responses from two in the cement industry and one in the pulp industry in Portugal.

Responses and information obtained from the questionnaire survey were processed by the *Statistical Package for Social Science (SPSS) version 13.01.1* and analyzed using both descriptive and inferential statistical methods. Two pre-analysis tests were undertaken to generalize the results of the questionnaire (non-response bias analysis) and to measure its internal consistency (Cronbach's Alpha). In the non-response bias test, early respondents were compared with late respondents (as a surrogate of those who did not respond to the questionnaire). After conducting the Mann-Whitney U test, no significant difference was reported between the two groups. The Cronbach's Alpha test, however, was used to assess the relationship between different constructs in the questionnaire. The Cronbach's Alpha coefficients range between zero and one; where zero indicates no correlation exists between various parts of the questionnaire and one refers to perfect correlation between them. Huck

and Cormier (1996) indicated that 0.70 is an acceptable level of significance for Alpha. Botosan (1997), however, indicated that 0.80 or more is preferable. In all cases, Table 3 shows that the value of Cronbach's Alpha for each variable is over 0.70.

The unit of analysis of this study was the organization. This analysis was based on the respondents' perceptions of various organizational dimensions amongst SOEs, partially privatized and private enterprises. Three levels of analysis were used in this study: (1) totally state-owned enterprises/public enterprises, (2) partially privatized/partial private, and (3) totally private enterprises. To accommodate small sub-sample sizes and resulting non-normal distributions, which together would violate the assumptions of parametric statistics, the non-parametric Kruskal-Wallis analysis of variance was chosen (Kruskal and Wallis 1952; Vargha and Delaney 1998). Previous studies in the field of organizational and business studies, (Al-Khater and Naser 2003; Bishop and Megicks 2002; Frank et al. 2001; Fraser and Zarkada-Fraser 2003; Okabe 2002) have used Kruskal-Wallis tests.

5. Findings

5.1. General Characteristics of the Samples

The attributes of samples are reported as a percentage distribution. The type of business and ownership, annual sales, age, products/services sold abroad, and respondents' general characteristics are presented in Table 2.

[INSERT TABLE 2 ABOUT HERE]

Basic industry and chemicals, finance and trade, services and investment companies represent approximately 55 percent of the samples. Others account for about four to 12 percent of the sample. The study covers both manufacturing and services sectors in Indonesia.

5.1.1. Ownership types of organization

Of 86 respondents in 86 organizations, 31 are top and senior managers working for the SOEs, six are senior managers working for privatized firms and the remaining 49 are executives/management of private enterprises. There are fewer privatized firms than the other types of organization. This is natural in the context of Indonesia, since only those organizations privatized before December 31st, 2002 were considered in this study. There were no responses from organizations characterized as wholly foreign-owned. Furthermore, private enterprises were listed firms in the JSX (publicly traded companies). This should be borne in mind when analyzing and interpreting the data.

5.1.2. Annual Sales

Table 2 illustrates the size of the organization, measured by average net sales. It shows that 27.7 percent recorded more than 1 trillion Rupiah for the last five years. While about 50 percent have average net sales ranging from 100 billion to one trillion Rupiah, 23 percent recorded net average sales below 100 billion Rupiah. It can be said that most of the studied organizations have large annual sales by Indonesian standards.

5.1.3. Age of organizations

The number of years in business range from three years (the required minimum for inclusion in the study) to 114 years. The mean number of years in business is 30, and the standard deviation is 17. Nearly 85 percent of the surveyed organizations had been in business for 10-50 years. 34 organizations started their operation 31-50 years ago. Only six organizations had been operating for more than 50 years.

5.1.4. Products sold abroad

The degree of internationalization implies greater competitiveness and an ability to increase market size. Using the crude indicator of percentage of products/services sold abroad, 58 percent of the sampled firms (50 companies) sold their products/services in the domestic market only. 19 firms sold up to 25 percent of their products/services to foreign markets, and seven organizations, with a high degree of internationalization, exported more than 75 percent of their products/services. Hence, the majority of studied organizations sold their products and services only in the domestic market in Indonesia.

5.1.5. Respondents' Profiles

Table 2 shows that 56 percent of the respondents were categorized as a Senior Vice President (SVP) or Vice Director (VD). General Managers (GM) represent 21.4 percent of the total sample, while President Directors and Directors are 8.3 percent and 14.3 percent respectively. Top management was targeted under the assumption that this group of managers have a comprehensive understanding about, both the endogenous characteristics and external environment of the organization. We confirmed that our actual respondents do represent their own organizations.

Most respondents (53.6 percent) held postgraduate certificates, whilst about 42 percent had an undergraduate educational background. Thus, the majority of respondents had experienced higher education, and more than 50 percent had studied at postgraduate level. On average, respondents had been working in their organization for 11.8 years. This offers some degree of assurance that they knew about the organization they represented, and the information given is reliable, as shown by the Cronbach Alpha value of above 0.7 (see Table 3).

5.2. Ownership change and organizational goals and objectives

A Kruskal-Wallis test (H Test) was performed to examine whether firms across ownership type significantly differ in their organizational goals and objectives, characteristics of corporate governance and organizational structure. The survey results are presented in Table 3.

[INSERT TABLE 3 ABOUT HERE]

Table 3 demonstrates that there is no significant difference across ownership types concerning the importance attached to profitability, firms' growth, financial stability, employment welfare and social responsibility goals. The mean scores show that all of these organizational goals are highly valued irrespective of ownership type.

However, the organizations had statistically significant differences in the mean rank regarding the importance assigned to the 'efficiency and cost control' goal ($H = 6.630$, $p < 0.05$), and 'products' quality and customer services' (customer focus) goal, with H statistics of 6.103, and $p < 0.05$. The results suggest that the managerial incentives for efficiency and customer orientation were systematically higher in the privatized and private enterprises as compared to those for the SOEs. However, the pronounced difference in efficiency and cost effective goals exists between privatized enterprises and SOEs. Privatized enterprises have a mean score of 6 on a scale of 6, while SOEs have a mean score of 5.39 on a scale of 6. This is also evident in the products and quality goals where a significant difference exists between privatized enterprises and SOEs.

The survey results validate the hypothesis 1 that as firms move from public to private, the managerial emphasis on efficiency, cost reductions and customer orientation increases.

5.3. Ownership change and corporate governance

The characteristics of corporate governance covered in the survey were the audit committee and its independence of management, related-party transactions, political interference on decision-making process and the appointment of Board members.

5.3.1. Audit Committee

The role of the audit committee is crucial to develop internal and external organizational control mechanisms to reduce the risks of mismanagement. Table 4 exhibits a significant difference in the existence of audit committees between SOEs, partially privatized and private enterprises. All privatized and private enterprises (100 percent) have an audit committee, while the audit committee only existed in 35.5 percent of SOEs.

[INSERT TABLE 4 ABOUT HERE]

The independence of an audit committee is a crucial factor. The independence in this case is met when at least one of the three members of the audit committee is independent of management, with no ownership and conflicting interests. The majority of managers in privatized and private enterprises (over 93 percent) indicated that the audit committee was independent of management and responsible to the boards of commissioners (see Table 4).

The management of SOEs, which have an audit committee, indicated that the independence of the audit committee was seriously undermined: 70 percent of respondents said that the audit committee was not independent of management. As indicated by the *Pearson Chi-Square* test, there is a significant difference pertaining to the independence of audit committee across ownership type.

5.3.2. Related-party transactions

The Pearson Chi-square in Table 4 shows that there is no significant variation pertaining to related-party transactions across ownership type. First, the majority of respondents (over 80

percent) across ownership types indicated that their organization did not have contracts with directors, commissioners or shareholders, which can promote conflicts of interests. Second, the proportion of privatized and private enterprises allocating loans to their subsidiary companies was slightly higher than SOEs. Half of the privatized firms provide loans to their subsidiaries, while 57.1 percent of private enterprises do not allocate loans to the subsidiaries.

5.3.3. *Political interference*

Based on Table 3, two findings are of special interests. First, there is a significant difference across ownership types regarding the importance of the government in the strategic decision-making ($H= 27.49, p<0.005$). The mean rank column shows that SOEs had the highest mean rank, while private enterprises reported the lowest. This indicates that the SOEs' strategic decision-making is highly political and influenced by the government.

Second, regarding the degree of importance attached to the boards' appointment criteria (see Table 3), there are significant variances across ownership types in such criteria as 'the importance of business networks, skills, and experiences' ($H = 10.077, p<0.005$), 'reputation' ($H = 9.317, p<0.005$), 'Ministry of SOEs' ($H = 56.586, p<0.005$). It appears that privatized firms had the highest means rank on the importance of 'business networks, skills and experiences' and 'reputation' in appointing their Boards, while SOEs reported the lowest.

In sum, the findings provide support to hypothesis 2, that privatisation leads to improved corporate governance characteristics in order to support the new organizational objectives. The level of political influence was declined in strategic decision-making and board appointments were based on market criteria or professionalism.

5.4. Ownership change and organizational structure

K-W Statistics (Table 3) reveal no significant differences across various type of ownership with respect to the openness of internal communication and cooperation between individuals

and units. Openness of internal communication and cooperation between individuals and units are highly rated by the respondents irrespective of ownership type. The respondents are of the opinion that roles and functions are clearly defined; regulation and procedures are in place for employees to perform; information and help are made available for all employees.

However, pronounced differences were observed pertaining to the organizational structure, with H statistics of 7.937 ($p < .05$). The question concerned the flatness and decentralization of the organizational structure. An inspection of the mean rank shows that privatized enterprises recorded the highest, while private enterprises reported the lowest. The finding support hypothesis 3, that privatization leads to a flatter and decentralized organizational structure.

5.5. Ownership change and corporate performance

Table 5 reveals the proportion of firms reporting an increase and significant increase in their corporate performance against the firms' close competitors over the last five years.

[INSERT TABLE 5 ABOUT HERE]

Across all types of performance indicators, improvements are recorded in the privatized enterprises, partly indicating the important role of privatization in enhancing corporate performance. For example, the proportion of privatized firms that reported an increase in profitability (80 percent) was significantly greater than for SOEs (58.1 percent). However, it is also evident from Table 5, that privatization is associated with a decline in the total number of employees. Only a third of privatized firms reported an increase in the number of their employees in their post-privatization era. It is also interesting to note that the proportion of privatized firms recording a significant increase in their performance was slightly greater than

for private enterprises, except for the variables number in employment and products/services quality.

Furthermore, the Kruskal-Wallis tests (Table 3) show that firms significantly differ across ownership types in profitability, number in employment, products and services, and quality performance relative to competitors over the last five years. There are no significant variances across privatization levels with respect to 'investment/total assets' and 'market share relative to competitors' over the last 5 years.

6. Discussions

This research provides insight into how organizational changes that accompany privatisation process influence the financial performance of privatized firms. The study found pronounced variations between public and privatized enterprises in the importance attached to efficiency, cost effectiveness (cost control) and customer-focused goals. Managerial incentives were increased after privatization in the search for efficiency, cost control and improvement of product and service quality. This was especially true in privatized firms for example telecommunication companies (Telkom Indonesia) where there was a shift from 'engineering excellence' to 'customer excellence'^{§§}. From the public service mentality of government departments and the dominance of technical experts, privatized firms went through significant changes in the number and structure of employees, and radical transformation of management systems towards customer-oriented behavior, teamwork practices and shareholder value policies.

SOEs in Indonesia have been generally characterized by inefficiencies because of overstaffing, dependence on subsidies, absence of competition, and poorly managerial incentives. Therefore, cost savings and efficiency behavior were the most frequently observed sources of performance improvement after privatization.

^{§§} This is evident through interviews with top management of Telkom.

The effects of privatization on the characteristics of corporate governance were found to be significant in relation to perceived improvements to both the external and internal control mechanisms of organizations. Significant differences were found in corporate governance practices between SOEs and privatized enterprises, particularly in terms of the existence of audit committees that were independent from management. Furthermore, privatized and private enterprises were more likely to disclose company information, for instance, in related party transactions and reward systems. Privatization also lessened the room for political interference in the strategic decision-making process and the appointment of Boards of directors and commissioners. For example, in privatized firms, the government, although a majority shareholder, appointed ‘apolitical’, commercial Boards of directors. Boards were given the responsibility for strategic direction and commercial performance, with incentives based on commercial performance indicators. All of these changes led to increased managerial discretion in the entrepreneurship transformation.

Undoubtedly, the role of an audit committee is crucial, particularly after the economic crisis of 1997-1998, as recognized by Indonesia’s National Committee on Corporate Governance (NCCG) ^{***}. When an audit committee is present, privatized and private companies are more likely to be able to develop the internal and external control mechanisms that reduce losses associated with the separation of principals from agents. Internal control mechanisms, in which incentives and monitoring devices are established, encourage professional managers to act in the shareholders’ best interest (Shleifer and Vishny 1997). It is evident in this study that political interference and weak internal and external control

^{***} NCCG was established by the Decree of Coordinating Ministry for Economy in 1999. It has prepared a comprehensive code addressing issues like rights and responsibilities of shareholders, the board’s responsibilities and duties, audit systems disclosures, insider information confidentiality, business ethics and regulatory compliances. The impression conveyed was that the code, though a step in the right direction, was more in the nature of best practices. In January 2005, NCGP embarked on a strategic plan to revamp all SOEs, financial service providers and private and public companies and to devise codes of conduct, ensure implementation, recommend regulatory improvements and provide management assessment procedures using World Bank and OECD benchmarks.

mechanisms have been complicated by the absence of an audit committee in the majority of SOEs.

Furthermore, based on Indonesia's security exchange commission regulation, the auditing firms (external auditors) can only audit firms that have traded their shares on the stock exchange (that is, the privatized firms and private enterprises) for a maximum of five years. If there is no auditing period limitation, some auditing firms might collude with their clients' management to improve their chances of continuing the auditing services (Nam and Nam, 2002). A five-year maximum regulation has improved the reliability and independence of auditing by external auditors in privatized and private enterprises. Nevertheless, there has been no legal requirement for SOEs to have an external auditing period limitation.

The quality of corporate internal controls and supervising process in the private and privatized firms, as indicated by the presence of an independent audit committee is relatively stronger than those in SOEs. Privatization is associated with the improvement of corporate governance practices as implied by the internal controls and supervising process dimensions. Approval and disclosure are needed in relation to related-party transactions in the case of those amounting to at least ten percent of corporate revenue or 20 percent of equity for both private and privatized enterprises.

As noted earlier, privatization changes both the decision-making process and the degree of government influence on the decision-making in strategic decisions. Therefore the change in ownership was expected to lessen the scope for political intervention in the operation of the enterprises and to simplify the objectives (Cook and Kirkpatrick 1988). In Indonesia, for example, the Government not only determines managerial life spans, but also controls key resources, market channels, and sources of raw materials for SOEs' operations.

Political influence in any form constrains the SOEs' managerial actions to implement strategic changes. The result suggests that as firms move from public to private, the forms of political influence are systematically reduced. It would be wrong to say that there is no kind

of political influence in the privatized firms. In all privatized company, the government has kept *saham dwiwarna* (golden share), which gives the government the right to veto major decisions pertaining to ‘very crucial issues’. This is one form of political influence. However, because of the privatization method chosen (SIPs), the stock market can play a role in which the company has to disclose any material issues regarding the company’s operation. Stock Exchange (*Badan Pengelola dan Pengawasan Pasar Modal*) regulations to some extent constrain the government’s political influence.

The results suggest that the Boards’ appointment in privatized firms is based on professionalism criteria such as business reputation, experiences, business networks and skills. These criteria are believed to be a secondary factor, if not non-existent, among the SOEs. It has been widely accepted that the directors and commissioner’s appointments in SOEs are not based on merit but rather on the basis of political connections and ‘cozy’ relationships between government figures and management. This is evident by the influence of the Ministry of SOEs in the Board’s appointment for which SOEs had the highest means, while private enterprises reported the lowest. This also reinforces the findings of previous studies (Robison 1986; Mardjana 1993).

The findings provide support for the notion that privatization lessened the scope for political influence and interference by government in the decision-making process and appointment of company Boards. This is consistent with one of privatization’s rationales in developing countries, that is, giving more autonomy to management to manage (Cook and Kirkpatrick 1988).

Structural organizational changes resulting from privatization were found in this study. As firms moved from public to private, organizational structures tended to become flatter, more organic and decentralized, and to move to a matrix form of structure in order to facilitate organizational integration and fit with environmental factors. The respondents also reported improved communication and coordination among individuals and units following

privatization as organizations moved towards reducing bureaucratic rules and rigidities. Notably, changes in organizational structure following privatization were not just seen as a continuous process; they were also seen to be multi-dimensional in nature (Erakovic and Wilson 2005).

First, the organizations significantly decreased their overall size. Most privatized firms reduced the number of employees and the size of organizational units. Next, those units or operations which were not considered part of the core business, or which were relatively unprofitable, were outsourced. Lastly, organizations reduced their number of hierarchical levels. Through various transitional stages, structures were flattened dramatically, leaving only four to five levels in operational areas.

As noted previously, the organizational structure changes were to be anticipated. As privatized firms are subject to market pressures and are forced to become more efficient and cost effective, organizational structures that ensure faster decision-making, eliminate layers of management and reduce bureaucratic rules are crucial. These findings provide evidence from the Indonesian context that flatter and more decentralized organizational structures are more common in privatized companies than in SOEs, thus supporting similar findings obtained in other contexts (Gowland and Aiken 2003; Martin and Parker 1997).

Corporate Performance

The respondents tended to be of the view that Indonesia's privatization program has had a positive effect on corporate performance. Respondents indicated that privatization had produced a significant increase in the overall profitability and quality of products/services as measured by competitive advantage in products design, after-sales, and technical product/service capability. However, there was a greater tendency to significantly reduce the number of employees among privatized and SOEs than in private enterprises. Again, these findings from Indonesia generally support the findings of other researchers such as Yarrow

(1986), Megginson et al. (1994) and Martin and Parker (1997). Martin and Parker found that performance improvements are associated with changes in the internal environment of the enterprises and, in some cases, these changes occurred independently of ownership changes.

First, as firms move from public to private, profitability (return on sales) increases. The mean rank for privatized firms recorded the highest, while public enterprises reported the lowest. Second, privatized firms had the lowest means rank with regard to the number of employment, while private enterprises reporting the highest. This implies that privatized firms had systematically experienced the decline in the number of employment following privatization. In the Indonesia's telecommunication industry for example, after privatization employees were reduced from 42,170 employees in 1994 to 34,678 employees in 2002 (Telkom 1994, 2002).

However, systematic reduction in the employment also occurred in the SOEs as part of business restructuring process in the government SOEs' revitalization program. Both SOEs and privatized had experienced staff redundancies as a result of privatization and government revitalization programs in the SOEs. Another factor contributing to staff redundancies are macro-economic instability resulting from the economic crisis unfolded in the mid 1997 whereby firms reduced the number of employment. Third, in relation to products and services quality, it is obviously shown that privatized firms had the highest mean rank and conversely, public enterprises reported the lowest.

Finally, the managerial perceptions relating to product and services quality significantly differ between privatized companies and SOEs. The management perception regarding products and services quality of privatized firms as measured by the competitive advantage in product design, after sales/services, technical product/services capability dimension were significantly higher for the privatized companies. Overall, the results suggest that the managers perceive that privatized firms tend to perform better than SOEs with respect to profitability and products and services quality.

7. Conclusions

The key finding of this study is that privatization brought about major changes in the organizational goals, corporate governance and organizational structure of privatized firms. These changes transformed privatized firms that fundamentally different from SOEs and suitable to a competitive market environment. These positive organizational changes led to significant performance improvement. Changes in ownership structure, from public to private, alter the behavior, incentives and performance of managers and organizations. The study contributes to our understanding about the relationship between ownership-performance by providing an organizational change perspective on the examination of privatization-performance effect.

The findings highlight specific organizational changes that take place in the transition from the public to the private sector. As such, the findings could be used to prepare managers of SOEs to take steps to manage newly privatized firms. This finding reflects the importance of leadership and participation in the privatization and restructuring processes. This study highlights the need for managerial training programs in all developing and transitional economies, targeting the managers of newly privatized firms. The content of that training and development could be informed by further research into the leadership and management challenges arising during the privatization and restructuring programs.

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Table 1**Possible organizational and managerial implications of privatization**

Theoretical Basis	Contributors (among others)	Central tenets	Possible organizational and managerial implications as firms move from state to private
Agency theory	Berle and Means 1932; Jensen and Meckling 1976; Fama and Jensen 1983.	<ul style="list-style-type: none"> • Goal conflicts between the agent and the principal • Information asymmetry • People's behavior are assumed 	<ul style="list-style-type: none"> • Changes in managerial incentives • Changes in corporate governance, and • Changes in control systems
Public choice theory	Buchanan 1972; Niskanen 1971; Tullock 1965	<ul style="list-style-type: none"> • Business maximize profits • Government managers maximize their budget • Politicians maximize their votes 	<ul style="list-style-type: none"> • Less political intervention • Increasing search for efficiency • Reducing social considerations
Property rights theory	Alchian 1965; Demsetz 1966; Lindblom 1977; De Alessi, 1987; Vickers and Yarrow 1988	<ul style="list-style-type: none"> • The more direct and unattenuated are the rights to property, the better the assets will be used 	<ul style="list-style-type: none"> • Incentives for management • Clear lines of accountability • Commercially oriented

Source: Author's compilation

Table 2**Organisational and Respondents' Characteristics**

Characteristics	Respondents Percentage	
<i>A. Types of industry</i>		
Agriculture	7	8.1
Mining	1	1.2
Basic industry and chemicals	16	18.6
Consumer goods industry	4	4.7
Property, real estate and building construction	6	7.0
Infrastructure and transport	11	12.8
Finance	15	17.4
Trade, services and investment	16	18.6
Miscellaneous industry	10	11.6
Total	86	100.0
<i>B. Type of ownership</i>		
State-owned enterprise	31	36.0
Privatised enterprises/mixed enterprises	6	7.0
Private enterprises	49	57.0
Total	86	100.0
<i>C. Sales (Average net sales per year)</i>		
IDR 1bill-100 bill	19	22.9
IDR 100bill-500 bill	25	30.1
IDR 500bill-1trillions	16	19.3
More than IDR 1 trillions	23	27.7
Total	83	100.0
<i>D. Age of the organisations (years)</i>		
Less than 10 years	5	5.8
10-30 years	41	47.7
31-50 years	34	39.5
More than 50 years	6	7.0
Total	86	100.0
<i>E. Degree of internationalisation (% sales sold abroad)</i>		
0%	50	58.1
.0%-25%	19	22.1
26-50%	7	8.1
51-75%	3	3.5
76-100%	7	8.1
Total	86	100.0
<i>F. Respondent's Position</i>		
President director	7	8.3
Director	12	14.3
Senior Vice President/Vice Director	47	56.0
General Manager	18	21.4
Total	84	100.0
<i>G. Respondent's Education</i>		
Senior high school	1	1.2
College/D3	3	3.6
Undergraduate	35	41.7
Master	44	52.4
Doctoral	1	1.2
Total	84	100.0

Source: Own elaboration.

Table 3**Descriptive and Kruskal-Wallis statistics for organizational and managerial practices across SOEs, privatized firms, and private enterprises**

Organizational and Managerial Characteristics	Cronbach's α	Mean	Standard Deviation	Means rank for privatization level ^a	K-W Statistics	p value	Interpretation
<i>Goals and Objectives</i>	0.851						
Profitability		5.62	0.71	(1) 42.50 (2) 48.92 (3) 43.47	.538	.764	Not Sig.
Social goals		5.65	0.63	(1) 39.97 (2) 47.67 (3) 45.22	1.123	.570	Not Sig.
Efficiency and cost effective		4.91	1.08	(1) 37.19 (2) 58.00 (3) 45.71	6.630	.042	Sig.
Firms' growth		5.15	0.86	(1) 40.55 (2) 39.67 (3) 45.84	1.214	.545	Not Sig.
Financial stability		5.58	0.66	(1) 39.98 (2) 48.17 (3) 45.15	1.379	.502	Not Sig.
Employees welfare		5.34	0.78	(1) 42.11 (2) 46.17 (3) 44.05	0.218	.897	Not Sig.
Customer focus (product/services quality)		5.53	0.57	(1) 37.32 (2) 55.50 (3) 45.94	6.103	.047	Sig.

Table 3 (continued)

Organizational and Managerial Characteristics	Cronbach's α	Mean	Standard Deviation	Means rank for privatization level ^a	K-W Statistics	p value	Interpretation
<i>Decision-making process</i>	0.716						
The importance of the government in decision making process		3.94	1.82	(1) 61.24 (2) 46.67 (3) 31.89	27.49	.000	Sig.
The importance of union organization in decision making process		3.84	1.23	(1) 43.10 (2) 45.50 (3) 42.63	0.079	0.961	Not Sig.
The importance of boards in decision making process		5.37	0.80	(1) 47.19 (2) 57.25 (3) 39.48	4.664	.097	Not Sig.
<i>Boards' appointment</i>							
The importance of business networks, skills and experiences in appointing Boards		5.01	1.20	(1) 32.69 (2) 54.67 (3) 48.97	10.077	.006	Sig.
The importance of reputation in appointing Boards		4.99	1.21	(1) 33.60 (2) 56.50 (3) 48.17	9.317	.009	Sig.
The appointment of Ministry of BUMN for Boards		3.04	2.11	(1) 66.48 (2) 54.25 (3) 26.43	56.586	.000	Sig.
<i>Organizational structure and integration</i>	0.715						
Roles and function of employees are clearly defined		5.17	0.74	(1) 46.50 (2) 42.50 (3) 41.72	.891	.640	Not Sig.
Regulation and procedures are in place for employees to perform		4.81	1.01	(1) 48.19 (2) 20.42 (3) 43.36	5.164	.075	Not Sig.
Information and helps are made available not only for particular employees		4.53	0.89	(1) 45.65 (2) 41.25 (3) 42.42	.420	.811	Not Sig.

Table 3 (continued)

Organizational and Managerial Characteristics	Cronbach's α	Mean	Standard Deviation	Means rank for privatization level ^a	K-W Statistics	p value	Interpretation
Organizational structure are flatter and more decentralised as compared to the last five years		4.48	0.95	(1) 34.60 (2) 49.50 (3) 27.44	7.397	.025	Sig.
How often coordination among units and functions		4.97	0.83	(1) 31.71 (2) 35.88 (3) 31.76	.216	.717	Not Sig.
<i>Performance</i>	0.879						
Profitability (after-tax return on sales/ROS)		3.61	1.11	(1) 37.82 (2) 58.83 (3) 44.36	5.543	.054	Sig.
Investment/total assets		3.44	1.14	(1) 37.98 (2) 50.17 (3) 45.34	2.417	.306	Not Sig.
Market share (competitive position in the industry)		3.36	0.82	(1) 37.92 (2) 41.92 (3) 45.44	2.020	.375	Not Sig.
Number of employment		3.13	1.00	(1) 36.19 (2) 35.67 (3) 48.31	5.637	.057	Sig.
Products and services quality (ie. competitive advantage in product design, after sales/services, technical product/services capability)		3.82	0.72	(1) 34.66 (2) 50.17 (3) 47.49	6.781	.040	Sig.

a (1)=SOEs, (2)=Privatized Firms, (3)=Private Enterprises.

Source: Own elaboration

Table 4**Some characteristics of corporate governance**

Some characteristics of corporate governance	a	No (%)	Yes (%)
Audit Committee	(1)	64.5	35.5
	(2)	.0	100
	(3)	.0	100
Pearson Chi-Square = 46.237, p=.000			
Independence of the audit committee (<i>at least one of the three members of audit committee is independent of management</i>)	(1)	70.4	29.6
	(2)	.0	100
	(3)	6.3	93.8
Pearson Chi-Square = 38.328, p=.000			
Firms have contract with directors or relations which promote conflict of interest	(1)	87.1	12.9
	(2)	80	20
	(3)	95.8	4.2
Pearson Chi-Square = 2.829, p=.243			
Firm gives loan in the subsidiary companies	(1)	80.6	19.4
	(2)	50	50
	(3)	57.1	42.9

a (1) = public; (2) = partial private; (3) = private

Source: Own elaboration

Table 5**Corporate performance across ownership type (%)**

Indicators	SOEs (n=31)	Privatized (n=6)	Private (n=49)
Overall profitability	58.1	83.3	81.5
Investment expenditure	51.6	83.3	55.1
Market share	35.5	50.0	49.0
Number of employees	32.2	33.3	51.0
Products/services quality	58.1	66.7	75.5

Source: Own elaboration.

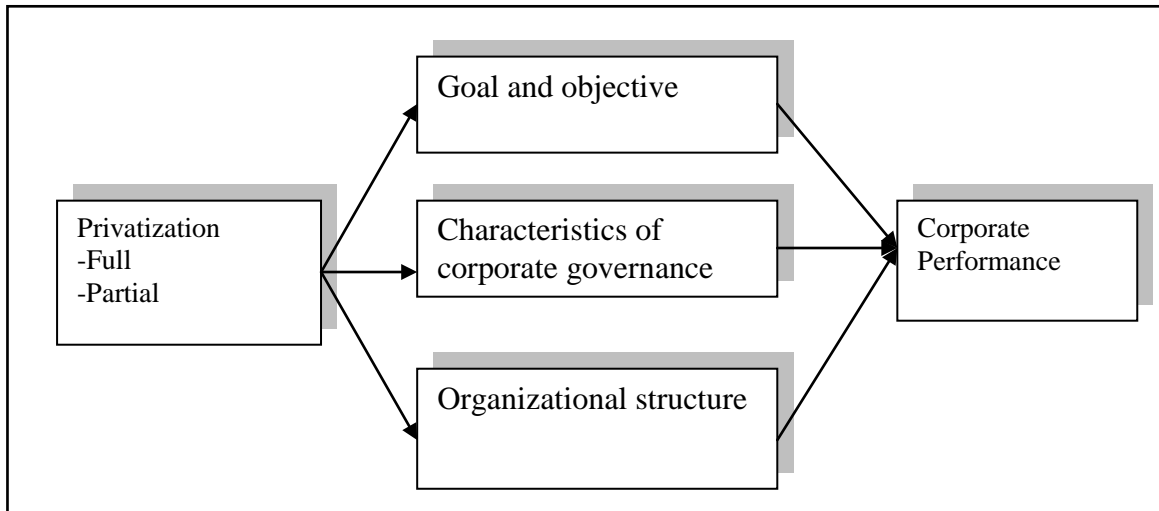


Figure 1

A framework for analysing privatization, organizational change and performance