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PRIVATIZATION

Isnurhadi

Keywords: Privatization, Competition, Soft Budget Constraints

Privatisasi merupakan suatu kebijakan penjualan sebagian atau seluruh saham Badan Usaha Miliki Negara (BUMN) dan Badan Usaha Milik Daerah (BUMD) yang dimiliki pemerintah kepada pihak swasta. Perubahan kepemilikan dari pemerintah ke swasta atau dikenal dengan "privatisasi" secara teoritis maupun empiris menunjukkan terjadinya peningkatan kinerja perusahaan setelah privatisasi. Namun, peningkatan kinerja tersebut tidak semata-mata terjadi karena perubahan kepemilkan. Beberapa studi menunjukkan bahwa peningkatan tersebut dipengaruhi oleh ada-tidaknya kompetisi dan jaminan dari pemerintah (Soft Budget Constraint). Kompetisi pada tingkat tertentu memberi insentif untuk peningkatan efficiency, demikian pula dengan dengan soft budget constraints. Penelitian empiris menghasilakn kesimpulan yang berbeda-beda tentang bagaimana ketiga kebijakan tersebut berinteraksi dalam meningkatkan kenerja perusahaan yang diprivatisasi. Artinya, apakah ketiga faktor tersebut bersifat saling melengkapi (complementary) atau saling menggantikan (substitutionary). Oleh sebab itu diperlukan penelitian empiris yang ekstensive untuk dapat menemukan jawaban dalam rangka membantu pemerintah merumuskan strategy dan implementasi yang tepat terutama pada suatu sistem perekonomian tertentu.

Introduction

Over the last twenty years privatization has become one of the most popular economic policy moves both in the West and in the East. Privatization has been given a solid theoretical foundation and various explanations have been developed to provide a scientific justification for the supposed superiority of private entrepreneurship in the dynamic economic environmental of the late twentieth century. Over the last decade, privatization of state-owned enterprises has been occurring at increasing rate, particularly in developing countries. One of the most important and visible aspects of this has been the enthusiasm with which governments of all political persuasions have sold their state-owned firms to private investors in hopes that the generally unsatisfactory economic performance of these firms can be improved by the discipline of private ownership. This privatization process has transformed the role of the state in the economy of industrialized nations such as United Kingdom, France, the United States, and Japan, and also of developing countries as diverse as Malaysia, Philippine, Turkey, Brazil, Chile and Mexico (Megginson et al., 1994).

What have been the results? There is growing literature on this subject addressing several key questions: how have enterprises performed after privatization, has efficiency increased, has production gone up? The findings are mixed: while some enterprises have done well, others have not. Empirical studies generally support the view that "going private" has a positive effect, via restructuring and improvements in "marketisation", on corporate performance. One could debate the quality of the studies, the rigor of the analytic methods used and the appropriateness of the conclusion drawn. We could argue on what constitutes appropriate indicators of performance and how to evaluate performance changes when there are improvements in some dimensions and deterioration in others. Measuring performance is not easy; interpreting the measures is even more difficult.

This article is a survey of literature and supposed to give readers some comprehension about some aspects of privatization and to present some thought as a mean of guidance for a government when privatizing.

Review of Literature

A. Theorical Aspect of Privatization

The first part of this article is about theoretical framework of privatization. First of I will address the methods of privatization. In general, there are five methods of privatization. The classic type of privatization is the sale of full or partial ownership of state enterprise by public offering on stock exchanges, by competitive bidding for shares or assets or by noncompetitive placement of shares. The second type of privatization is the sale of government enterprises to the workforce. This method of privatization involves selling a government organization to the employees. The employees purchase shares in a new company and elect directors to manage the company. Employee-owned firms have a strong

incentive to eliminate restrictive work practices as they personally stand to gain from the introduction of measures to increase labor productivity and reduce cost. Liberation and Deregulation is *another type of privatization. This method* involves introducing private sector competition into areas, which were previously reserve for a government monopoly. Liberalization may involve encouraging private sector firms to enter markets where the public sector has had a monopoly. The fourth type of privatization is contracting out the service to the private firms and non-profit organizations. Under this method of privatization the government maintains control of the activity but contract out to the private sector the production of goods or services.

Economists have long regarded competitive markets, private ownership, and hard budget constraints as the major determinants of enterprise performance and efficiency. These issues have been prominent in the growing literature on transition economies as well as emerging economies. Policies that receive stress are liberalization of prices and trades (introduction of competition), privatization of state-owned enterprises, and reduction of state subsidies and bailouts, in other words hardening the budget constraint. Economic theory has predictions about how these may be expected to affect enterprise behavior, and some of the empirical implications have begun to be explored empirically for Central Europe and the former Soviet Union.

Why should competition influence company performance? An obvious answer is that the existence of monopoly rents gives the company stakeholders, in particular managers and workers, the potential to capture these rents in the form of slack or lack of effort. But this is simplistic. The owners of monopolistic firms will be just as keen to prevent slacking by managers and workers as the owners of competitive firms. However, it may be argued that the latter are in the better position to do so, at least under the uncontroversial assumption that managers know more about what is going on than owners. Concerning managerial effort, the work of Holmstrom (1982) that explicit incentive schemes will generate sharper incentives the greater the number of players involved. This arises because of the greater opportunities for comparison of performance. Hart (1983) provides a model of managerial incentives that demonstrates explicitly how competition between firms may sharpen incentives. He supposes there are two types of firms in an industry, "managerial" (M), where there is a principal-agent problem, and "entrepreneurial" (E), where the "principal" runs the firm. All firms face common cost shocks. When marginal costs are low, E firm expand output whereas M firms have managers to take advantage of the good times to slacks. This is consistent with the optimal incentive scheme under the condition that managers are not "too responsive" to monetary incentives. If the proportion of E firm is higher, industry output in the good time (low cost) is higher, industry price is lower, and the potential of managerial slack in the M firm is lower. This might be interpreted as an increase in competition leading to less slack.

The definition of Soft Budget Constraint (SBC) is used most often by Kornai is a subsidy paid, typically by the state, to loss-making firms to guarantee their survival. If an enterprise found itself in financial trouble, the state bailed it out unconditionally. The subsidy is paid ex post, after the state observes the firm's losses, without expectation of future repayment, and can take a variety of forms, e.g. a direct budgetary subsidy, an injection of credit from the state or another institution, a reduction in tax rate.

Kornai introduced the SBC as part of his explanation of chronic shortage in socialist economies (Kornai, 1980) but since then the concept has taken on a life of its own. In Kornai analysis, the cause of the SBC is "paternalism" by the state. The state will rescue a failing firm because it is unwilling to accept the social consequences (e.g. unemployment) of its closure.

There have been a number of paper explored the SBC phenomenon— an ex post bailout of loss-making firms. Goldfeld and Quandt (1988, 1990) develop a family of models of SBC in which the size of the subsidy received by a loss-making firm is determined in part by resources devoted by the firm to lobbying. They use the model to demonstrate how the presence of SBC can increase factor demand and, hence, contribute to shortage in socialist economies. Gomulka (1985) introduced of "budget flexibility" and argued that, for SBC to generate chronic shortage, budget not only be soft, but also more flexible than prices, since sufficient increases in prices can eliminate excess demand and, hence, shortage. The consequence of SBCs which Gomulka stresses and which Kornai also emphasizes is inefficiency of firms. Schaffer (1989) presents a game-theoretic model in which the SBC result from the inability of paternalistic state to commit credibly not to rescue a firm that fails; the addition of imperfect information on the part to build reputation for toughness and impose hard budget constraints on firms. In their theory of privatization, Boycko et al. (1996) model politician-using subsidies to induce firms to maintain higher levels of employment. Since the subsidies follow from what could be called the "paternalistic" preference of politicians, it is reasonable to assert, as the authors themselves do, that these subsidies provide firms with SBCs. It is not, however, that this is a broadening of the SBC notion to cover employment supporting subsidies in general and not just subsidies to failing firms.

Stiglitz (1990) extends the concept of SBC that differs substantially from the above definition. He suggests that SBCs arise not only when institutions "believe that any losses they will incur will be made good by the government" but also when institutions "have incentive to make a large gambles". The first case is consistent with the definition of the SBC as ex post bailouts of loss makers, but the second quite different. The incentive of financial institutions to gamble refers here to the US experience with saving and loans institutions, in which insolvent banks tried to gamble their way out of insolvency by making high-risk loans. In the gambling bank model, an insolvent bank may be

willing to invest in a risky project with an expected payoff that is low or even negative, because if the gamble pays off, the bank will become solvent whereas, if the gamble does not pay off, the bank will become "more insolvent", i.e. no worse off than it was before it made the risky loan. This usage extends the SBC concept to include the situation in which insolvent bank may be willing to invest in a project that is expected ex ante to be loss-making, albeit not with certainty.

Dewatripont and Maskin (1995), Qian (1994), and Berglof and Roland (1997), extend the concept even more. In these models the SBC results from adverse selection. For example, a bank or some other creditor will in the first period fund a project that the bank does not realize will be unprofitable, e.g. a firm that make losses. Following the first-period financing, the bank learns that it has finance a bad project and that it will fail to recoup it entire investment. The prospect of the projects in the second period are sufficiently good, however, for the bank to refinance the project, because the first-period financing is now a sunk cost and the return to the bank after refinancing the second period of the project is greater than if the bank terminates the project after the first period. This is interpreted to be an example of the SBC since in the second period the bank is refinancing a project it at that point knows to have been bad.

Both the gambling bank model and the adverse selection models are very different from the models of ex post bailouts of loss-makers due to paternalism as developed by Kornai and others. In models developed by Kornai and others, the state of some other agents inject money into a loss-making firm without any expectation of repayment and simply because it suits state's preferences to prevent the firm from closing. In the gambling model and the adverse selection models, the creditor finances the firm for maximizing profit.

To understand easier the differences between these models and the ex post bailout models of Kornai and other is to consider what would happen if, ex ante, the information that the project or firm was going to be loss making with certainty was revealed to the creditor. In both the gambling model and the adverse selection models, if a creditor learns ex ante that the firm is definitely a "bad" firm, it will refuse to finance it since to do so would be throwing money away. This is a sharp contrast to a model of ex post bailout due to paternalism because in such a model the likelihood of obtaining financing is unaffected by ex ante revelation to the creditor that the project of firm is expected to be loss making. If the firm is loss making ex post, it is subsidized as a result of its situation and, consequently, the firm has a SBC.

The definition of the SBC as ex post bailouts of loss-making firm resulting from paternalism preferences is more compatible with the use of that term in policy-related discussions. Therefore, for the remainder of this paper, I will use this term for analyzing the problem. The state or some other agents will rescue firms that known to be performing poorly by granting subsidies or extending credits.

A theory of privatization of Boycko et al. (1993) and its subsequent refinements

(Shleifer and Vishny, 1994 and 1996) is of rigorous one. They model a theory of privatization that focuses on the separate impact of privatization, deregulation, and stabilization, as well as corruption on enterprises performance.

The Shleifer-Vishny (SV) model centers around the political economy aspects of privatization. In particular, the focus is on the interests of politicians to have state enterprises employ excess people at above market wages so as to obtain more political support. This model separates the effects of control right and cash flow right. Four types of firms are distinguished: state enterprises, i.e., with control right and cash flow right in the hand of state; commercialized state enterprises, i.e., with control right with managers but cash flow right with the state; regulated private firms, i.e., with control rights but not cash flow rights with private owners; and private firms, i.e., with control rights and cash flow rights with private owners. The SV model also allows for a discussion of the effects of the degree of corruption and bribes on enterprise performance under various scenarios of privatization and commercialization.

The SV model indicates a number of specific hypotheses. First, with full corruption, the allocation of control and cash flow rights does not influence the resource allocation. A necessary condition for privatization to generate efficiency gains is a simultaneous improvement in the overall legal and judicial framework leading to a reduction in corruption. Second, privatization in itself may not have desirable consequences of lowering excess labor and improving efficiency. Only when privatization is accompanied by allocation of control rights to managers, deregulation and increases in competition, will there be positive impacts. Third, corporatization can promote enterprise restructuring, even though it may soften the budget constraint enterprises face. Fourth, corruption may have stumulate effects on enterprises restructuring as it allows managers and politicians to "contract" in achieving more efficient allocation of resources. Fifth, stabilization, i.e., a reduction in subsidies and soft credits from the central bank to enterprises, will have large allocative and efficiency benefits.

The SV model suggests a number of important factors to be controlled in the empirical research design. First, one needs to control overall changes in external environment. This concerns with both the degree of (de)regulation and the degree of competition. Second, we need to control overall legal and regulatory framework. This needs to be controlled as it affects the degree of corruption. Third, degree of stabilization is also need to be controlled as it can greatly affect enterprise performance. Four, we also need to control initial condition of firm level. Firm are differently endowed in term of quality of machinery, labor, management, link with foreign market, etc.

Another theory of privatization was introduced by Perotti (1995). Perotti documents strong regularities in privatization programs across several countries. The data indicate a predominance of partial, staggered sales. Although transfer of control typically takes place rapidly, government tends to retain a significant stake for a long time interval.

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Another theory of privatization was introduced by Perotti (1995). Perotti documents strong regularities in privatization programs across several countries. The data indicate a predominance of partial, staggered sales. Although transfer of control typically takes place rapidly, government tends to retain significant stake for a long time interval. Moreover, some studies find that a government tends to underprice initial offering price of privatization. Perotti provide a model to explain this phenomenon. According to Perotti, a partial sale is a signal commitment from government to current policy by retaining a stake in the firm for sometime (while transfer managerial control), thus showing willingness to bear some financial costs of policy changes. As time passes without reversal, confidence and thus sale prices improve. In addition, early sales maybe deliberately underpriced in order to convince the market to absorb larger sales, which reduce the risk borne by the government and therefore enhance policy risk.

Empirical Studies of Privatization

Empirical studies of privatization are discussed in the following. For the last two decades, both developed and developing countries have engaged in ambitious privatization programs. Over the years, numerous transactions of privatizations have been growing. Between 1988 and 1993 there were more than 2,600 transactions in 95 countries, yielding $271 billion. During 1996 and 1997, when several emerging markets were still suffering the effects of the Mexican financial crisis, the sale of state-owned assets reached $53 billion in Europe, more than $17 billion in Latin America, US, and Canada, and nearly $9 billion in Asia (Shafik, 1996). Even though the change does not only respond to privatization strategies, it is strongly linked to it. It reflects a major revision of the role of the public sector as owner of productive assets in the economy.

Developing countries, specifically some members of ASEAN countries have also privatized their state-owned firms for quite awhile. According to World Bank data from 1988 to 1999, Philippine has privatized the most with 98 transactions. While other countries i.e. Malaysia has 46 transactions, Indonesia 22 transactions, Thailand 19 transactions, and Vietnam 5 transactions. This data indicates that privatization in ASEAN countries basically are moderate (except for Philippine) compared to other developing countries such as, Brazil with 164 transactions and Turkey with 231 transactions. It means that there are still much rooms and opportunities for ASEAN countries to privatize their state-owned enterprises.

Most people associate modern privatization programs with Margaret Thatcher's Conservative Government, which launches a large privatization program. Margaret Thatcher adopted the label "privatization" which was originally coined by Peter Drucker. It becomes so popular afterward, and it means to the sale of equity owned by government to private sector.

Most governments adopt privatization programs with concrete (and often very optimistic) objectives in mind. In fact, almost every government that decides to follow the privatization route-regardless of its ideological basis-expresses similar objectives. All are ultimately based on disappointment with the actual performance of state-owned enterprises, and all perceive that the lure of financial incentives and the discipline of the capital

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markets will spur greater efficiency. One such goal is to raise revenue, but generally the more important objective is to improve the operating and financial performance of the former SOE by exposing it to the market forces. The specific objectives of all governments tend to be very similar as described in Price Waterhouse (in Megginson et all, 1994). Specifically, these of objectives are to: (1) raise revenue for the state; (2) promote increased efficiency; (3) reduce government interfere in the economy; (4) promote wider share ownership; (5) provide the opportunity to introduce competition; expose state-owned enterprises to market discipline, and lastly (6) develop national capital market.

Comparing the performance of government-owned to privately owned firms is one method through which the impact of government ownership on firm performance can be analyzed. There two methodological difficulties that are especially pronounced in attempts to isolate the impact of ownership on performance. First, in comparing state-owned enterprises to private-owned firms, it is difficult, if not impossible to determine the appropriate set comparison firms or benchmarks, especially in developing economies with limited private sectors. Second, there are generally fundamental reasons why certain firms are government-owned and others are private-owned, including the degree of perceived market failure within the particular industry. Thus, it is difficult to evaluate the effects of government ownership in cases where the ownership structure is itself endogenous to the system that includes both political and performance goals.

Empirically, there are three groups of microeconomic empirical research: those based on firm-specific data in different countries with very small samples (Galal et al. (1994) and Eckel et al. (1997)); studies with large sample of firms in different sectors for a specific country (LaPorta and Lopez-De-Silanes (1998)); and [illegible] section analysis for privatized fi[illegible] are publicly traded (Megg[illegible] (1994), D'Sousa and Megginson [illegible] and Boubakri and Cossets (1998) [illegible] papers have shown important e[illegible] gains and productivity improveme[illegible] privatized firms and allow us to [illegible] the privatization experience f[illegible] microeconomics, partial equ[illegible] perspective.

Numerous studies give evidence [illegible] post-privatization performance of [illegible] are improved. For example, Meg[illegible] et al. (1994) study finds that perfo[illegible] of privatized firms are strongly imp[illegible] without sacrificing employment secu[illegible] Specifically, after being privatized, fi[illegible] increase real sales, become mo[illegible] profitable, increase their capital investm[illegible] spending, improve their operati[illegible] efficiency, and increase their workfo[illegible] Furthermore, these companies significantly lower their debt levels and increase dividend payout. Finally, they document significant changes in the size and composition of corporate boards of directors after privatization. In addition, Boubakri and Cosset (1998) do similar study using samples of 79 companies from 21 developing countries during the period from 1980 to 1992. This study uses

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Empirically, there are three groups of economic empirical research: those d on firm-specific data in different tries with very small samples (Galal l. (1994) and Eckel et al. (1997)); studies h large sample of firms in different tors for a specific country (LaPorta and pez-De-Silanes (1998)); and cross tion analysis for privatized firms that publicly traded (Megginson et. al. 94), D'Sousa and Megginson (1998), d Boubakri and Cossets (1998)). Those pers have shown important efficiency s and productivity improvements in tized firms and allow us to evaluate privatization experience from a roeconomics, partial equilibrium spective.

Numerous studies give evidence that t-privatization performance of firms improved. For example, Megginson l. (1994) study finds that performance vatized firms are strongly improved hout sacrificing employment security. cifically, after being privatized, firms ease real sales, become more fitable, increase their capital investment nding, improve their operating ciency, and increase their workforces. hermore, these companies significantly er their debt levels and increase dend payout. Finally, they document ificant changes in the size and position of corporate boards of tors after privatization. In addition, bakri and Cosset (1998) do similar y using samples of 79 companies n 21 developing countries during the d from 1980 to 1992. This study uses accounting performance measures adjusted for market effects in addition to unadjusted accounting performance measures. They find significant increases in profitability, operating efficiency, capital investment spending, output, employment level, and dividends. They also find a decline in leverage following privatization but this change is significant only for unadjusted leverage ratios. D'Sousa and Megginson (1999), using data of 85 companies from 28 industrialized countries that were privatized through public share offerings for period from 1990 through 1996, find similar results. Combined with results of two previous directly comparative studies, these findings strongly suggest that privatization yields significant performance improvements.

The state versus private ownership alone is not the only one that affects firm performance; different types of private owners also generate different returns. Morck, Shleifer and Vishny (1988) present evidence that managerial ownership below certain levels improves performance but is associated with lower performance at higher levels.

The empirical literature examining the effect of different types of ownership structures on corporate performance has been greatly expanded. The following I outline the stylized facts that have been uncovered in the empirical literature to date (See Djankov (1999)).

Managerial ownership. Berle and Means (1933) contended that diffuse ownership yields significant power in the hands of managers whose interest do not coincide with the interest of shareholders. As a result, corporate resources are not used for the maximization of shareholder's value. Studies for the US (e.g., Morck, Shleifer, and Vishny, (1988); McConnell and Servaes, (1990) find a non-linear relation between managerial ownership concentration and corporate performance.

Employee ownership. Although this category has not been extensively studied but it has been argued that unionized employees more likely seek control of a firm. However, their actual monitoring role as owners has not been documented. We argue that employees, like small shareholders, may be less able and face little incentive to monitor firm performance.

Individual ownership. Shleifer and Vishny (1986) argued that individual block-owners have strong incentive to monitor management because of their non-diversifiable holding in the corporation. Consistently, Friend and Lang (1988) report that the presence of individual block holders forces management to use more debt for disciplinary purposes. Other studies (Coase (1988); Demsetz and Lehn (1985)) argue, however, that any relation between individual ownership concentration and firm performance may be spurious. While greater ownership concentration results in stronger incentives to monitor, the expected gain from active monitoring and the costs of alternative ownership structures vary across firms. If transaction costs inhibiting investors from taking value-maximizing positions in firms are low each firm would have the "right" ownership structure and there may not be a relationship from ownership to performance. One thus needs to be

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cognizant of the two-way relation between individual ownership and performance.

Outside ownership. Better performance of firm may be due signaling and special abilities of outside owners. Some corporate outside investors, for example, may be more able to evaluate firms—based on their better information. Other corporate investors may be better owners as they may be have access to technology or know-how not available to the firm (e.g., foreign investors) or they have special monitoring skills (e.g., trade creditors which are owners), which may raise the valuation or profitability of the firm. On the other hand, the presence of corporate owners may harm the firm's performance since these owners may collude the incumbent management to expropriate wealth from other shareholders. This argument is consistent with the observation of Jensen (1993) that the board of directors of US firms often consists of representatives of other corporations and reacts to slowly in removing bad management.

There some other factors are associated with the change on post-privatization performance of firms after being privatized. Megginson et al. (draft, 2001) show some potential sources of post-privatization performance improvement, one of which is capital market. Trading of shares in capital market establishes the possibility of takeover by outsiders, introduces the discipline of managerial labor market, and provides the ability to link compensation to performance. As a result, when shares trade in the public equity markets, owners have enhanced capacity to spur greater managerial effort and accountability. Recent academic research has documented that the intensity of capital market pressure depend upon the size and sophistication of the nation's financial system (La-Porta, Lopez-de-Silanes, Shleifer, and Vishny (1998, 1999, 2000), Levine (1997), Demirguc-Kunt and Maksimovic (1998)).

Privatization redefines the firm's objective function. While state-owned firms typically pursue multiple and often conflicting objectives, privatized firms focus on profit maximization. However, the degree to which the privatized firms can pursue profit maximization differs considerably across companies. Government may still wield significant influence through policies regarding competition, regulation, and taxes. As a result, a government's commitment to capitalism and to creating a pro-business environment should be a determinant of a newly-privatized firm's efficiency improvement. Perotti (1995) and Jones, Megginson, Nash, and Netter (1999) note that uncertainty about a government's commitment to privatization affects the manager's incentives to restructure the privatized firm. By signaling its commitment to capitalism, the government convinces managers that it will not expropriate profits through policy reversals and motivates managers to maximize value. Perotti (1995) contends that this signal is necessary for the economic benefits of privatization to begin. He states that governments can credibly signal commitment by initially selling a small portion of the firm. This bonds the government to bear residual risk and avoid expropriating profits

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through policy changes. However, Paudyal, Soodouni, and Briston (1998) argue that selling only a small stake increases the likelihood of continuing government interference and possible re-nationalization.

Since state-owned enterprises pursue objectives that frequently conflict with profit-maximization, the level of post-privatization ownership retained by the state should affect the newly-privatized firm's efficiency improvement. Boycko, Shleifer, and Vishny (1996) predict efficiency gain from privatization only if control right pass from the government to private investors. Similarly, Claessens (1997) contend that, if the state maintains majority ownership, the firm is more likely to delay structuring and maintain excessive employment. In empirical studies of the effect of privatization of D'Sousa and Megginson (1998), Boubakri and Cosset (1998), Eckel, Eckel, and Singal (1997) and Megginson, Nash, and Van Randenborgh (1994), large efficiency improvements following sales in which the government relinquished major control. Accordingly, we expect that the greatest performance improvement will result from privatizations in which private owners gain control of the firm.

The presence of foreign investors may also affect the degree of the post-privatization performance improvement. Foreign investment has accounted for an increasing share of privatization's sales in less developing countries. Sader (1993) estimates that while foreign investors participated in only seven operations in 1988, they were involved in 191 separate transactions in 1992, and in a total of 375 over the period 1988-1992. A total of $18 billion in foreign exchange was generated as a result, contributing on average about 30 percent of total privatization proceeds. Furthermore, foreign direct investment (FDI) has been the most common means of foreign exchange contribution to privatization of $18 billions; some $14.5 billion (81 percent) was in the form of FDI. Shafik (1996) studies 2,655 transactions in 95 countries between 1988 and 1993 and finds that foreign investors are involved in 29 percent of these transactions and contribute 34 percent of the revenues from privatizations. Foreign investors are particularly active in Eastern and Central Europe (57 percent of total revenues) and in Latin America (25 percent).

Anderson, Makhija, and Spiro (1997) study Czech privatizations, identify 41 firms with direct foreign investment and 947 firms with no foreign investment. They also find that return on equity and revenue per employee are significantly higher for the firms with foreign investors. Smith, Cin, and Vodopivec (1997) in their study of 3,792 privatized firms from Slovenia document a significantly positive relationship between profitability and foreign ownership and a significantly negative relationship between leverage and foreign ownership.

The amount of employee share ownership may also contribute to changes in post-privatization performance. Boycko, Shleifer, and Vishny (1996) predict theoretically that employees are unlikely to support value-maximizing restructuring efforts, and Barberis, Boycko, Shleifer, and Tsukanova (1996)

conclude that equity ownership by employees does not spur performance improvement after privatization. However, Smith, Cin, and Vodopivec (1997) find a significantly positive relation between revenues and employee share ownership and a significantly negative relationship between leverage and employee share ownership.

Changes in the privatized firm's upper management may also trigger efficiency gains. Replacing the often politically-appointed manager of the SOE with a professional businessperson should lead to performance improvements. For example, Lopez-de-Silanes (1997) recognizes that the existing SOE management may lack the appropriate human capital to effectively guide the privatized firm in the new, competitive market. He also finds a positive relation between a change in CEO and the market value of the privatized firm. Barberis, Boycko, Shleifer, and Vishny (1996) cite new human capital as an important factor in increasing the probability of value-maximizing restructuring. Megginson, Nash, and Van Randenborg (1994) also examine how executive change affects the operating performance of the newly-privatized firm and report stronger efficiency gains from the firm with larger changes in top management. Based on finding of these studies, we expect that restructuring a firm in the form of management changes will positively impact the degree of post-privatization performance improvement.

In addition to changing ownership, privatization may also expose the firm to the discipline of product market competition. Having to compete with other firms for customers and market share may provide the pressure required to stimulate greater efficiency and profitability. Ramamurti (1997), Newbery and Pollit (1997) and Vicker and Yarrow (1991) identify competition as major determinant of post-privatization performance improvements. Vicker and Yarrow (1991) say that privatization should stimulate efficiency gains in competitive environments but when market power exists there is no advantage of private ownership. Additionally, Boardman and Laurin (1996) contend that firms such as utilities, which are not subject to the discipline of competitive pressure, would be less likely to benefit from privatization. Several empirical studies as-including Megginson, Nash, and Van Randenborg (1994), and La Porta and Lopez-de-Silanez (1999) report significant differences when comparing the post-privatization performance of competitive and non-competitive firms. These studies find that both types of firms experience efficiency improvements. However, the efficiency gains are significantly greater for firms in competitive markets.

Conclution

ASEAN countries having not privatizing their state-owned enterprises intensively still have a lot of opportunities to adopt the policy. Governments that will adopt privatization policy should have preparation before implementing the policy. They have to take into account competition and soft budget constraints. Of course, the degree of competition and

competition. Having to compete with other firms for customers and market share may provide the pressure required to stimulate greater efficiency and profitability. Ramamurti (1997), Newberry and Pollit (1997) and Vicker and Yarrow (1991) identify competition as major determinant of post-privatization performance improvements. Vicker and Yarrow (1991) say that privatization should stimulate efficiency gains in competitive environments but when market power exists there is no advantage of private ownership. Additionally, Boardman and Laurin (1996) contend that firms such as utilities, which are not subject to the discipline of competitive pressure, would be less likely to benefit from privatization. Several empirical studies as including Megginson, Nash, and Van Randenborg (1994), and La Porta and Lopez-de-Silanez (1999) report significant differences when comparing the post-privatization performance of competitive and non-competitive firms. These studies find that both types of firms experience efficiency improvements. However, the efficiency gains are significantly greater for firms in competitive markets.

Conclution

ASEAN countries having not privatizing their state-owned enterprises extensively still have a lot of opportunities to adopt the policy. Governments that will adopt privatization policy should have preparation before implementing the policy. They have to take into account competition and soft budget constraints. Of course, the degree of competition and soft budget constraints has to be considered carefully because too high the degree of competition and too soft the degree of budget constraints would backfire. That is, they are not supporting restructuring and efficiency but destructing them instead. Developing countries in general and Indonesia in particular as a country of numerous state-owned enterprises, mostly inefficient, should accelerate the pace of privatization to overcome some of problems facing the country i.e. lack of budget and problems facing the state-owned enterprises i.e. inefficiency.

Privatization can be done gradually; selling a partial of government's equity at first and the rest afterward through a capital market to foster its development. To whom share are sold is also to be considered because some foreign ownership shows a better performance. Board of Directors and Top management change is recommended to get a fresh leadership and a new talent. Last but not least, a government has to surrender its control as soon as possible after the privatization occurs and avoid any further intervention. At the end of the day, a government has to sell all of its equity to private owners because they are at best in handling the companies.

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