



## **PRIVATIZATION AND FIRM PERFORMANCE: A COMPARATIVE STUDY OF DEVELOPING AND DEVELOPED COUNTRIES**

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Article info	ABSTRACT
<p><b>Corresponding Author:</b></p> <p>Jeffits Khusnu Alif  <a href="mailto:jeffitsalif@gmail.com">jeffitsalif@gmail.com</a>            Universitas Muhammadiyah Sinjai</p>	<p>Privatization, the transfer of ownership from public to private entities, remains a controversial topic. Proponents argue that privatization enhances efficiency, innovation, and management, while critics highlight risks such as job losses and declines in public service quality. This study examines the impact of privatization on corporate performance, particularly in developing countries, using a bibliometric analysis of literature from 2005 to 2013. The results show that privatization in developing countries tends to focus on short-term gains due to fiscal pressures and political instability, while in developed countries, privatized firms struggle to convert R&amp;D investments into market value. The success of privatization depends on institutional readiness, strategic planning, and supportive regulations. Policymakers must balance short-term gains with long-term impacts to ensure sustainable benefits.</p> <p><b>Keywords:</b> <i>Privatization, Firm Performance, Profitability, Efficiency, Innovation</i></p>
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### **INTRODUCTION**

Privatization, the transfer of ownership from a public entity to a private entity, has long been a topic of debate in economics and corporate governance. Proponents argue that privatization improves corporate performance by increasing operational efficiency, encouraging innovation, and promoting better management practices (Annisa & Alif., 2020). Privatized companies are often considered to be more profit-oriented, leading to better resource allocation and a more competitive position in the market (Nash, 2017). The private sector’s need to satisfy shareholders creates incentives for improved performance, in contrast to the often slow and bureaucratic nature of state-owned enterprises (Arocena & Oliveros, 2012). However, the urgency of privatization, especially in sectors traditionally controlled by the government, is becoming more pressing as countries face economic challenges and pressures to reduce public spending. Governments are increasingly looking for ways to divest inefficient state-owned enterprises to improve fiscal sustainability and boost economic growth. This shift toward privatization is critical to driving competitiveness and growth in both developed and developing countries.

However, this process is not without controversy. Critics argue that privatization can lead to job losses, a decline in the quality of public services, and monopolistic behavior. The potential negative impacts on social welfare and inequality create a complex debate about whether privatization improves corporate performance or is at the expense of the public interest.

Privatization offers several benefits, especially in developing countries. In these regions, privatization is often seen as a strategic move to boost economic growth, improve public sector efficiency, and attract foreign investment. Many developing countries face budget constraints and a lack of resources to effectively manage state-owned enterprises. By transferring ownership to the private sector, these countries hope to improve efficiency, encourage innovation, and create a more competitive business environment. In addition, privatization can also improve the quality of services and financial stability of companies that previously performed poorly under state control.

This study is important because the debate on the impact of privatization on firm performance continues, especially in developing countries. Although many governments have adopted privatization as a solution to economic challenges, the long-term benefits and potential drawbacks of privatization still need further investigation. The importance of this study lies in its ability to provide a clearer understanding of whether privatization improves performance or brings unintended consequences, such as workforce reductions or a decline in the quality of public services.

The research methodology used is a literature review, which involves analyzing existing literature on privatization and firm performance. This method was chosen because it allows for a comprehensive exploration of various studies, theories, and case examples. By synthesizing insights from various sources, this approach offers a holistic perspective on the effects of privatization.

The urgency of this study is to provide clarity on the true benefits of privatization. In the context of developing countries, where economic challenges are often more pronounced, a deeper understanding of the benefits and risks of privatization is essential. The findings of this study will help policymakers and stakeholders make decisions that are based on evidence and careful consideration of all possible outcomes.

### **Privatization**

Privatization is the process of transferring ownership, control, or management of state-owned enterprises (SOEs) to the private sector. Privatization began to develop in the late 20th century when governments in various countries sought to increase efficiency, reduce fiscal burdens, and encourage economic liberalization. Countries such as the UK under Margaret Thatcher and the former Soviet Union have implemented many privatization policies. The main benefits of privatization include increased efficiency, better resource allocation, increased competitiveness, and reduced government spending on loss-making companies. The private sector is often considered better able to encourage innovation and ensure financial sustainability.

The main objectives of privatization are to increase company productivity, reduce government interference, and encourage economic growth by implementing market-based incentives. Privatization also aims to attract foreign and domestic investment, so that it can provide wider economic benefits.

However, privatization often faces contradictions. The main criticisms of privatization are the potential for job losses, reduced social welfare, and the emergence of monopolistic practices. If not properly regulated, privatization can prioritize profits over the public interest, which risks reducing the accessibility of essential services such as health, transportation, and utilities.

### **Financial Performance or Profitability**

Financial performance, specifically profitability, refers to a company's ability to generate profits relative to its costs and financial obligations. Profitability is often measured using various financial indicators such as Return on Assets (ROA), Return on Equity (ROE), Net Profit Margin, and Earnings Before Interest and Taxes (EBIT). The primary purpose of measuring profitability is to assess the financial health and sustainability of a company's business. Profitability helps investors, creditors, and management make decisions regarding business expansion, investments, and operational strategies.

Profitability benefits a company by allowing reinvestment in business operations, attracting investors, ensuring debt repayment capacity, and providing funds for research and innovation. Companies with high profitability are better able to survive in volatile economic conditions and intense market competition.

Profitability calculations are essential because they provide insight into the company's operational success and long-term prospects. Profitability analysis also helps companies compare their performance with other industries, measure competitiveness, and evaluate the effectiveness of management strategies in creating added value. Without profitability analysis, companies may have difficulty identifying inefficiencies, allocating resources optimally, or justifying future investments.

### **Corporate Efficiency**

Corporate efficiency refers to a company's ability to maximize output while minimizing input costs, including labor, capital, and raw materials. This efficiency is often measured using productivity ratios, cost efficiency, and other operational efficiency indicators. The main goal of increasing efficiency is to increase competitiveness, optimize resource use, and ensure long-term profitability. An efficient company can produce products or services at a lower cost, thereby increasing competitiveness in market and increasing shareholder value.

Efficiency provides various benefits to the company, such as reducing waste, increasing production speed, increasing customer satisfaction, and increasing profit margins. Efficient companies are more resilient to economic fluctuations and can adapt more quickly to changes in the market, regulations, or technological developments.

Calculating corporate efficiency is very important because it helps in identifying operational bottlenecks, comparing performance with competitors, and optimizing strategic decision making. Without efficiency analysis, companies can suffer losses due to excessive costs, slow production cycles, and decreased competitiveness in the market. In the context of privatization, corporate efficiency is one of the main indicators used to assess whether the transition from state to private ownership has a positive impact on company performance.

### **Investment in Research and Development (R&D)**

Investment in research and development (R&D) refers to the allocation of financial resources by a company for innovation, technology development, and product improvement. R&D includes activities such as improving the quality of existing products, creating new technologies, and refining production processes.

The main purpose of investing in R&D is to drive long-term growth, increase competitiveness, and create new revenue streams. Through this investment, companies can differentiate themselves from competitors, adapt to market trends, and sustain innovation-based expansion.

Investment in R&D provides various benefits to companies, such as improving product quality, increasing operational efficiency, opening new market opportunities, and protecting intellectual property rights. Companies that invest in R&D have an advantage in fast-moving industries such as pharmaceuticals, automotive, and information technology.

Calculating R&D investment is important because it provides insight into a company's commitment to innovation and long-term growth. Investors and stakeholders analyze R&D spending to predict future profitability and market position. Without adequate investment in R&D, companies risk stagnation, loss of competitiveness, and possibly being left behind in a rapidly evolving industry.

## **METHOD**

Data was collected from the Scopus Sciencedirect Web, a citation database covering a wide range of disciplines and international academic journals. Scopus Sciencedirect provides a citation index that allows users to track the development of papers step by step and trace back to core papers in a topic.

This study began by searching for the keywords “privatization\*” and “performance\*” in the Scopus Sciencedirect subject column (including title, abstract, author, and keywords). Next, the researcher combined the search results with the “OR” operator and finally filtered the document type into literature. After carefully identifying redundant files and excluding irrelevant papers through title and abstract screening, the researcher managed to compile a dataset consisting of 5 documents from 2009-2013.

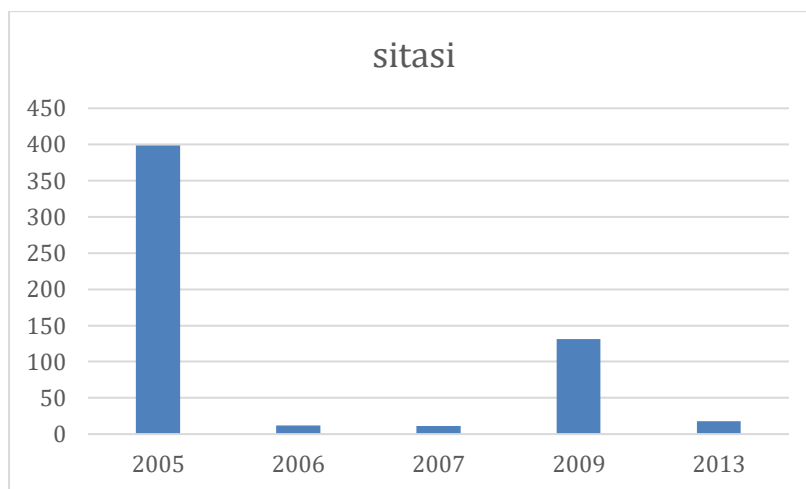
Bibliometric analysis is an interdisciplinary science that uses mathematical and statistical methods to analyze literature. Unlike alternative methodologies such as systematic reviews, bibliometric analysis eliminates subjective bias in manual selection of literature samples, allowing for objective exploration of relationships in the literature. Therefore, bibliometric methods are essential in identifying the research frontiers in various fields objectively and efficiently (Liu et al., 2023). The widespread use of this method emphasizes its importance in advancing academic research. Bibliometric analysis has been applied in various fields to identify emerging research topics. For example, in economics and management, Varshneya et al., (2017) assessed the value of experience using online databases and found that entrepreneurs can enhance brand value by integrating some aspects of experience value into their positioning strategies.

## **RESULT AND DISCUSSION**

### **Trend Analysis**

In the past few decades, academics have increasingly paid attention to the economic market, especially privatization activities (Annisa & Alif., 2020). Figure 1 shows the number of published papers and their citations. The earliest study in our dataset is Munari (2005), in which the author called for privatization as one of the feasible ways to improve the performance of companies by prioritizing accountability that is the focus of the private sector. Before 2009, many researchers conducted research on privatization. The number of

published studies on the art market increased dramatically and peaked in 2005. The number of citations decreased gradually, ending in 2009 before the decline in popularity of this theme occurred. It is undeniable that the spike in citations in 2005 indicates that many researchers are focusing on the study, where many State-Owned Enterprises opened opportunities to sell state ownership to improve their performance after the 2008 economic crisis hit. Although it has received continuous academic attention for almost half a decade, there is still a lot of room for further research due to the unpredictable state of the world economy.



### Analysis of Influential Literature

Table 1 lists the studies used in the dataset. The main studies focus on the following two aspects: On the one hand, the effect of privatization on financial performance as measured by the profitability ratio has been widely studied. Annisa & Alif. (2020) emphasized the importance of a company's financial performance in determining the decision to release government ownership in a state-owned company. This is because the main principle of a company is established to generate maximum profit, so the government's decision as a shareholder who decides to sell its ownership is greatly influenced by financial factors (Annisa & Alif., 2020; Arocena & Oliveros, 2012; Munari & Oriani, 2005)

On the other hand, the company's efficiency attribute has also received extensive attention. Company efficiency is the second most considered factor after privatization, because company owners try to increase profits by reducing costs that were not previously maximized by cutting expenses (Annisa & Alif., 2020; Melgarejo Moreno et al., 2013). Peter et al. (2010) extensively discussed employee efficiency and cost efficiency for companies in Sri Lanka but found that efficiency decreased significantly after privatization of companies, in contrast to previously existing concepts and theories. Alipour (2013) also found that privatization had no impact on company efficiency in Iran. However, Wu (2006) found that privatization increased company efficiency in China, making companies healthier.

### Literature Analysis

Literature analysis focuses on the results of existing research and discusses the cause and effect of the dependent variable to the independent variable (Purnomo, 2019). This study uses 7 published articles on the impact of privatization on company performance in the

publication period 2005-2013 with a diverse number of citations. Research from Bai et al. (2009) and (Gupta, 2005) with more than 100 citations on the Scopus website, followed by Alipour (2013), Peter et al. (2010), and (Sukaesti, 2015) which have similar topics with the focus on the influence of privatization on corporate profitability in developing countries.

Privatization of State-Owned Enterprises (SOEs) in developing countries is often more focused on short-term profits or instant profitability than long-term benefits due to several economic, social, political, and educational characteristics inherent in these countries before 2005.

Many developing countries such as India, Sri Lanka, and Ukraine before 2005 faced significant economic pressures, including budget deficits, high debt, and dependence on international aid. In this situation, governments often use privatization as a quick solution to overcome the fiscal crisis (Nash, 2017). Selling SOE assets can provide an instant capital injection needed to cover the budget deficit, without thinking about how the assets can generate long-term income. For example, Ukraine was in dire need of revenue from privatization after the collapse of the Soviet Union, although the process was often poorly planned (Annisa & Alif., 2020).

Countries such as Iran, Sri Lanka, and Ukraine also face significant political instability. When governments struggle to maintain legitimacy amid internal conflict or international pressure, they are more likely to take quick steps that demonstrate immediate results to the public or international donors. Short-term privatizations allow governments to demonstrate economic improvements without facing the risks of complicated long-term policies (Nash, 2017; Sukaesti, 2015). The social characteristics of these countries, such as high-income inequality and poverty rates, create pressure to quickly demonstrate results from economic policies. In this context, privatizations are often directed at improving the operational efficiency of state-owned enterprises, with the hope of improving public services and lowering costs for consumers in the short term (Annisa & Alif., 2020; Nash, 2017). The level of education and managerial skills in developing countries are often not mature enough to design well-planned privatizations. Governments may lack the expertise to ensure that privatization is carried out with transparency and a focus on long-term sustainability. On the other hand, local academic institutions and think tanks do not yet have the full capacity to offer evidence-based policy strategies that can support sustainable privatization.

Overall, privatization in developing countries is more oriented towards short-term profitability due to fiscal pressures, political instability, and limited long-term planning capacity. This indicates the need for more holistic reforms to ensure that privatization is not only a temporary solution but also provides sustainable benefits to the economy. In addition to increasing company profitability instantly, privatization is also intended to increase the productivity or efficiency of the company (Annisa & Alif., 2020; Nash, 2017). Productivity tends to increase after privatization because companies that were previously state-owned often experience various structural inefficiencies that can be overcome through private management.

Research by Alipour (2013), Gupta (2005), Peter et al. (2010), Sukaesti (2015), and Wu (2006) found that company efficiency is something that companies strive for after privatization. This is due to several factors, one of which is the incentives given when achieving the expected efficiency (Wu, 2006). State-owned enterprises (SOEs) often do not operate with a focus on efficiency because they tend to be protected from market competition.

After privatization, companies must compete in the open market and become more responsive to consumer needs and pressure from competitors. This encourages more optimal use of resources, including labor, capital, and technology.

In developing countries such as India (Gupta, 2005) or Ukraine (Sukaesti, 2015), many SOEs before privatization became nests of bureaucracy, corruption, and overstaffing. Privatization puts pressure on streamlining the organization and increasing operational efficiency. Private management usually has greater flexibility in making strategic decisions than SOE management which is often bound by government bureaucracy. They are also more likely to employ competent professionals and implement modern management practices that increase productivity (Alipour, 2013).

Many SOEs in developing countries are managed by political officials or incompetent individuals, often due to nepotism or political pressure. Privatization allows companies to be managed by experts who focus on profitability and sustainability (Annisa & Alif., 2020). On the other hand, privatization can increase productivity if carried out with careful planning, strong regulations, and a focus on long-term benefits. Without it, increased productivity is only a temporary benefit that does not solve the underlying problem.

A very fundamental difference in research in developed and developing countries is that developed countries focus on whether companies develop in the long term after privatization, using post-privatization research as an independent variable, as done by (Munari & Oriani, 2005; Wu, 2006).

The findings that privatized firms in Europe struggled to convert R&D investments into market value before 2005, despite the region's modernization, can be explained by a combination of structural, historical, and economic factors. The main problem lies in the legacy of state ownership. Many privatized firms come from industries historically characterized by bureaucratic inefficiencies, excess labor, and rigid management practices, which are difficult to change after privatization. These firms often have cultures that are resistant to innovation and market-based strategies, which hinder their ability to leverage R&D effectively. In addition, R&D investments themselves are high-risk and provide long-term benefits, making them less attractive to newly privatized firms that are more focused on short-term profitability to satisfy shareholders and manage debt burdens. These short-term priorities often override the strategic vision needed for successful R&D initiatives. Complicating matters further are regulatory and institutional barriers that limit the operational flexibility of privatized firms. Many European governments retain partial ownership or impose stringent regulations that limit the ability of firms to pursue bold, innovative strategies. In addition, Europe's fragmented market, influenced by national regulations and cultural differences, creates barriers to developing R&D across borders. Investor skepticism further exacerbates the situation, as privatized firms lack credibility compared to established private sector competitors. Historical inefficiencies, coupled with doubts about their ability to innovate, make investors reluctant to place significant value on these firms' R&D activities. In contrast, private firms with proven governance and innovation capabilities are more likely to generate returns from R&D investments. The broader economic context during the dataset period also plays a role. In the two decades leading up to 2005, Europe underwent major transitions, including post-Cold War economic adjustment and the integration of new member states of the European Union. Firms in newly liberalized economies faced additional challenges in adapting to competitive markets, while firms in

developed regions faced increasing global competition, particularly from North America and Asia. Sector-specific dynamics also affect the results, as many privatized firms operate in low-innovation industries such as utilities and transportation, where R&D is less critical to market success. Taken together, these factors suggest that the region's modern infrastructure and regulatory sophistication are not fully capable of offsetting the challenges of transitioning from state to private ownership. These results highlight how deep institutional and historical contexts shape the success of economic reforms, even in highly developed regions.

## CONCLUSION

In conclusion, privatization has a complex impact on firm performance, depending on the economic, political, and social context in each country. In developing countries, privatization is often carried out with a focus on short-term profits to overcome fiscal and political pressures, without careful long-term planning. This results in a rapid increase in profitability but is not always followed by sustainable growth. Lack of managerial capacity and strong regulations are also obstacles to ensuring the success of privatization in the long term.

On the other hand, research in developed countries such as Europe shows that privatization does not always increase firm value directly, especially in terms of converting R&D investment into market value. Structural barriers, strict regulations, and market pressures make it difficult for newly privatized firms to compete with established private firms.

Thus, the success of privatization depends not only on changes in ownership, but also on institutional readiness, appropriate business strategies, and a supportive regulatory environment. Well-designed privatization can improve firm efficiency and competitiveness, while hasty privatization risks creating economic inequality and long-term instability..

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