New Public Management (NPM) as an Effort in Governance

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Privatization in State-Owned Enterprises: A Systematic Literature Review

Swallow Nest Tax Control in Cirebon Regency
Privatization in State-Owned Enterprises: A Systematic Literature Review

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ABSTRACT

One of the effective ways to improve the governance of State-Owned Enterprises (SOEs) is through privatization. A common problem that occurs at present in SOEs is that state-owned companies are inefficient in the use of resources, especially labor. The purpose of this research is to comprehend what is important in privatization, using the Systematic Literature Review (SLR) method. Some things that are important in the privatization of State-Owned Enterprises include privatization performance based on privatization activities, success factors, CSR in privatized SOEs, and performance after reducing government ownership. An improvement of performance both in terms of attainment and income along with a decrease in CSR were likely experienced by SOEs when privatizing. In addition, this research was also conducted to find out whether there were parts that had become worse after privatization. The privatization of SOEs was carried out by modernizing the economy. The decrease in performance of CSR could be minimized by social activities carried out by the company. The role of the government was very important in the supervision of SOEs so no one was able to gain personal benefit. The involvement of stakeholders was very important in this process because it could increase the trust of shareholders. During privatization, cooperating partners had to guarantee that there would be no termination of workers. In fact, it was hoped that more workers were to be added.

Keywords: Privatization, Reduction of Ownership, Success Determinants, State-Owned Enterprises, SOEs

INTRODUCTION

Over time, companies will face a variety of conditions. However, SOEs should not face bad conditions because the needs of the public will be hampered. SOEs have been accused of having lower performance than private companies. State-Owned Enterprises (SOEs) are types of companies with inherent competitive advantages and characteristics. Compared to ordinary companies, SOEs can be estimated to be less efficient because of political interference. Therefore, SOEs are more likely to focus on public goals. SOEs influence international trade because global value chains, globalization, WTO Member market opening, trade effects, and investments that may distort SOE participation in international trade have become the center of attention (Willemsyns et al., 2016).

Privatization is widely regarded as the main way to improve the performance of SOEs. Privatized companies are expected to have better performance than SOEs because privatized companies are considered to be far more efficient than SOEs. The dynamic competitive environment of an entity may need

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to switch to efficient management techniques to provide an adaptive response to environmental uncertainty (Astami et al., 2010). It is said that an efficient privatized company will be able to provide a faster response to a changing environment (Andrew and Dowling, 1998). Following are the characteristics of SOEs (Uddin et al., 2016):

1. The principle of SOEs is competitive neutrality
2. The characteristic of SOEs is competitive advantage
3. The government always plays a role

The disciplines of SOEs must contain five main elements, which are (Willemyns et al., 2016):

1. Clear definition and broad scope
2. General obligations and rights
3. Special disciplines regarding SOEs’ trade-distorting practices and special exemptions
4. Provisions to increase transparency
5. Rules regarding the validity and resolution of disputes

In its comparison with private companies, SOEs’ social obligations are important elements that distinguish them from private companies. Among the remedial actions available, privatization has been touted more than others. This has been recognized as a major political and economic phenomenon. Both qualitative and quantitative research have been conducted on the privatization of SOEs (Suleiman et al., 2017). With privatization, SOEs can have higher profits and improved performance. When privatization is not carried out by SOEs, the situation can deteriorate, affecting the community and all the resources contained therein. Therefore, planning in privatization should be carried out. Based on previous research, privatization is the most effective way to improve the performance of SOEs (Gakhar et al., 2018).

This article does not debate the need to reduce the number of international trade SOEs. Trade negotiations are related to trade and investment effects that distort SOEs, not to their motives or guiding objectives. However, it is the behavior of the government that enables SOEs’ competitive advantage, mostly through (indirect) subsidies. Therefore, international, intergovernmental, and plurilateral regulations on this issue do make sense. Existing rules on SOEs in international economic law will be examined, taking into account the following five elements. To regulate SOEs reasonably, five main elements must be reflected in the provisions (Willemyns et al., 2016):

1. Clear definition and broad scope
2. General obligations and rights
3. Special disciplines regarding SOEs’ trade-distorting practices and special exemptions
4. Provisions to increase transparency
5. Rules regarding the validity and resolution of disputes.

This research was conducted to determine the increase in performance both in terms of attainment and income along with a decrease in CSR through privatization. In addition, this research was also conducted to find out whether there were parts that had become worse after privatization. To achieve these objectives, a discussion was conducted on the performance of privatization based on privatization activities, success factors, CSR in privatized SOEs, and performance after reducing government ownership. This research used references from previous studies that had been published. This research used a digital database to find articles that were relevant to privatization in SOEs. The method used was the Systematic Literature Review (SLR) on the Scopus electronic database with a limit of 2009-2019.

LITERATURE REVIEW

State-Owned Enterprises

According to the Organization for Economic Co-operation and Development (OECD), SOEs are "companies in which the state has significant control through full, majority, or minority ownership" (Suleiman, 2017). State-owned enterprises (SOEs) play an important role in developed and developing countries as a tool to promote social and economic development. However, SOEs’
activities are more directed towards commercial activities. SOEs’ are established based on a law in which the government owns a majority of shares or even is a single shareholder (Nasir et al., 2017) (Hidayat, Rizal, Arifianti, 2018). SOEs are more involved in corporate social activities beyond profit maximization due to increasing pressure from stakeholders on companies to work for social and public interests. SOEs are generally debated because of a lack of corporate governance, unclear goals, underperformance, and crowding out of the private investment (Nasir et al., 2017). The characteristics of SOEs are:

1. SOEs depart from the principle of competitive neutrality with the aim of fixing market failures.
2. SOEs are characterized by inherent competitive advantages.
3. The government always plays a role.

There are characteristic differences between SOEs and private. These characteristics help explain why SOEs often inhibit competitive neutral markets. As the government pursues its objectives through SOEs, trade and investment can be severely disrupted. Therefore, special rules are made so that SOEs exist without disrupting international trade. The characteristics are as follows: (Willemyns et al., 2016) (Kang, 2012):

1. The main differences in characteristics between SOEs and POEs can be identified. First, POEs and SOEs often have different guiding objectives. When private companies focus primarily on maximizing profits, state ownership is seen as a way to fix market failures. The government departs from the principle of competitive neutrality with the aim of fixing market failures. There are two types of state ownership, which are ownership of government shares and ownership of marketed shares of companies, which may have different effects on the company. When government share ownership is the majority stake in a company, board members and chief officials are appointed by state officials.
2. SOEs are characterized by their inherent competitive advantage. The need for special rules is created by competitive advantages enjoyed by companies solely because they belong to the state, are supported by the state’s financial participation, benefit from government control through rules or practices on company functions, or because they are government-appointed monopolies.
3. SOEs, especially those that are not corporations, are often burdened with top management that is not incentified, with very limited accountability and concentrated decision making. However, it must be considered that SOEs exist in a variety of different corporate forms and with different characteristics and especially these last characteristics can vary greatly between different types of SOEs, affecting the potential for trade distortion.

There are several ways to improve the performance of SOEs, which are (Astami et al., 2010) (Runiawati, 2017):

1. Make (or approve) management and workers to be part of the SOE shareholders where they work.
2. Measure the effectiveness of Capital Expenditures (CapEx).
3. Create Management Composition and Change and eliminate comfort zones for workers.

Privatization in SOEs

Privatization is not a hot topic just discussed at this time, but a topic that is always a subject of discussion and is very controversial. It always seems to be discussed among state, city, and state governments. Such discussions may not be as complex and fair as the conclusions as they are today due to unclear knowledge of the fact that "what really means privatization" (Mehmood et al., 2013)

Privatization has now become an inseparable part of the economic reform agenda
in every part of the world and researchers continue to target it for theoretical and empirical work (Gakhar et al., 2018). State ownership of commercial companies often exists for several reasons, including a mix of social, economic, and strategic interests. State ownership also poses a number of unique governance and regulatory risks that can prevent SOEs from creating optimal value for the economy and society. The Organization for Economic Co-operation and Development (OECD) shows that the government consciously wants to leave competitive neutrality in certain sectors (Willemyns et al., 2016). In certain situations, privatization becomes a solution to the obstacles faced by SOEs.

Privatization is a remedy for SOEs whose conditions are not good (Suleiman, 2017). Privatization schemes usually occur during crises that hinder a country's economic growth, including increasing budget deficits and unemployment rates. One of the goals of privatization is to reduce the budget deficit. For most people, it is difficult to find alternative employment. Thus, rationalization has become a sensitive issue. Assurance that rationalization will not be applied helps eliminate people's disagreements (Wandebori et al., 2018). The privatization of SOEs is carried out by modernizing the economy through reform of the split-share structure.

This reform changes the nature of ownership in state-owned enterprises (SOEs) (Khan et al., 2019). It is widely known that the privatization program began in England in the late 1970s under Thatcher's government and spread to Europe and other countries in the world. Privatization of State-Owned Enterprises (SOEs) is recognized as one of the most important changes in public sector reform (Mehmood et al., 2013). Privatization refers to the transfer of ownership and control of property or business from the state to privately owned entities (Wang et al., 2016). There are global trends in the reform of state ownership, among them:

1. A description of the ownership policy that clarifies the expectations of state financial and non-financial performance for SOEs.
2. Steps to make all SOEs comply with high corporate governance and disclosure standards.
3. Legislative and institutional reforms to ensure that SOEs are subject to the same laws and regulations - including those related to the competition - as private companies.

The main purpose of conducting the privatization process is to create fair competition, improve market systems, and improve company performance (Celasun et al., 2013). In addition, property rights theory, agency theory, and public choice theory all ensure that SOEs are inefficient and privatization will enhance this status (Cuong et al., 2019). It is widely believed that the transition of ownership from the state to the market leads to increased efficiency, profitability, and sustainability of the company (Gakhar et al., 2018).

The government tends to privatize larger companies. The government is more reluctant to privatize when the competition is lower to avoid corruption (Cosset et al., 2019). The worst and best-performing SOEs tend to remain in the state sector and maintain a higher level of state ownership when elected for privatization (Du et al., 2015). The majority of privatizations are partial, not full, where the government retains primary ownership (Rakhman, 2018), (Chakrabarti et al., 2017). The factors for the natural sector to be considered by the government not to be privatized are:

1. Energy security
2. Increased competitiveness in the energy sector
3. Environmental protection

The reasons for privatized SOEs to perform better than SOEs that are not privatized are (Astami et al., 2010):

1. Previously privatized company managers appointed by the state will be replaced by
managers who are more oriented towards efficiency.

2. Privatized companies tend to improve incentive systems that encourage managers to improve company performance.

3. Privatized companies can reduce some of the burden imposed by the government on state-controlled companies such as reducing staff, replacing suppliers, adding new efficient technology and changing prices.

Transparency in privatization is important. The most effective way is to promote competition in the transaction process (Wandebori et al., 2018). The greater openness and competition in the selection process is, the more likely transparency will be achieved. Privatization is not something that is less flawed and is not backed by evidence, showing that it creates complex problems. Questions that arise are such as feasibility, financing required, structure and composition of legal property rights, and economic and productive performance of public officials and bureaucrats with respect to private business elites (domestic and foreign) (Mehmood, 2013). The evaluation of transparency on social support can be done by examining two potential negative issues in the bidding process, which are:

1. Improving stock prices.
2. Bribing the ruling political party.

This trend and other global trends in state ownership reformation over the past decade often coincide with an increase in transparency about the characteristics, objectives, and performance of SOEs. In countries with the most advanced transparency practices, countries report the people who are considered the main “shareholders” of SOEs on the operation and portfolio performance of state-owned companies to the general public, through annual aggregate reports. Such enhanced disclosure practices, in turn, increase accountability by state shareholders, company directors, and senior management for SOE performance and efficiency. Then, they continue their efforts to optimize the contribution of SOEs to the economy and society.

RESEARCH METHOD

A systematic literature review was employed to identify the core constructs of RQ that had been studied and analyzed in previous research. The author used the Web of Knowledge database to search for articles from reviewed journals published between 2013 and 2019 (Loureiro et al., 2017). The following are the steps (Koutsos et al., 2019):

a. Scoping: A guide to the review consists of three main sub-steps:
   1. Developing review protocol (focused research questions and study design).
   2. Identifying several studies that are relevant for pilot review studies.
   3. Looking for previous systematic reviews of the current problem.

b. Planning: Involving selecting the main keywords and Boolean operators that will be used in the search string and how the search will be performed.

c. Identification/search: The step in which the main search is performed (request execution) based on the search strategy specified in the previous step.

d. Filtering: Managing the resulting article.

e. Eligibility/assessment: Using several rating systems to make judgments about the strength of evidence of articles that qualify including unsystematic reviews. The majority of these systems showed that the strength of the research evidence included had to be based on hierarchy with evidence from systematic reviews, meta-analyses, and experiments at the top of the hierarchy and evidence from observational studies or expert opinions.

f. Presentation/interpretation

The following are the complete SLR stages performed in this research:
Figure 1 SLR stages

Formulating the Problem
The purpose of this research was to find out whether privatization could improve SOE performance. For this reason, several research questions (RQ) were formulated. At this stage, five Research Questions were obtained:

RQ1. What is the activity of privatization in State-Owned Enterprises (SOEs)? What is the performance of a State-Owned Enterprise based on its privatization activities?

RQ2. What are the success factors of SOE privatization? How do these factors work?

RQ3. What things should be considered by SOEs in conducting privatization?

RQ4. How is the performance of SOEs after reducing government ownership?

RQ5. What happens to CSR from SOEs experiencing privatization?

Literature Search
The second stage was looking for literature. The literature consisted of journals contained in the Scopus electronic database. The journals used as references in this study were journals relating to privatization and the performance of state-owned enterprises after privatization. The following string was used:

("state-owned enterprise" AND "Privatization" AND "Performance") OR ("SOE" AND "Privatization" AND "Performance") OR ("SOEs" AND "Privatization" AND "Performance")

The results obtained from the first stage of the search were the discovery of 219 writings in relation to privatization where the next step taken was to select the literature that was suitable for this research, namely regarding privatization in state-owned enterprises.

Selecting Literature Search Results
The third stage was to filter the journals and conference results that had been obtained based on established standards. The following are the standards set for this research:

1. The journals clearly answer the problem based on the formulation of the problem or research questions (RQ) in this study.
2. The journals used to answer the research questions come from Scopus electronic databases.
3. The publication year for the literature in this study is limited to the last 10 years from 2009 to 2019.
After the screening process was carried out, several works of literature were found to be compatible with this study. Of the 219 total writings found, these results were again limited by the publication year of the last 10 years. After that, 18 research were found to be a reference in this study.

<table>
<thead>
<tr>
<th>Total Retrieved</th>
<th>Inclusion (years)</th>
<th>Final Selection</th>
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<tbody>
<tr>
<td>219</td>
<td>101</td>
<td>18</td>
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</table>

**Conducting Analysis**

The analysis was carried out by collecting and summarizing the results of literature searching that had been selected, which were as much as 18 literature. Of the 101 existing literature, 18 were found to be related to the topic of this research.

**Understanding Analysis Results**

At this stage, it was required to understand the search that had been done in the previous stage. Therefore, at this stage, the results of the review discussion can be arranged.

**RESULTS AND DISCUSSION**

**Literature Search Results**

The figure below shows the comparison of searches in the last 10 years with the results of the research that were used as a reference based on the results of literature searches.

<table>
<thead>
<tr>
<th>Categories</th>
<th>Research</th>
<th>Amounts</th>
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<td>SOE privatization activities</td>
<td>(Khan et al., 2019)</td>
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<td></td>
<td>(Wandebori et al., 2018)</td>
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<td>(Wang et al., 2016)</td>
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<tr>
<td>Success factor</td>
<td>(Cuong et al., 2019)</td>
<td>4</td>
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<td></td>
<td>(Liao, 2014)</td>
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<td>(Mehmood, 2013)</td>
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<td>(Wandebori et al., 2018)</td>
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<tr>
<td>Stages of privatization</td>
<td>(Wandebori et al., 2018)</td>
<td>3</td>
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<tr>
<td></td>
<td>(Du et al., 2015)</td>
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<td></td>
<td>(Meyer et al., 2013)</td>
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<tr>
<td>Privatization of performance</td>
<td>(Khan et al., 2019)</td>
<td>14</td>
</tr>
<tr>
<td></td>
<td>(Cuong et al., 2019)</td>
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<td>(Cosset et al., 2019)</td>
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<td>(Kang, 2012)</td>
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Privatization activities at State-Owned Enterprises and SOEs’ performance based on privatization activities

The theory of stakeholder significance proposed that dominant state shareholders had greater rights to the company’s strategic decision making because companies usually reacted to stakeholders who had great power (Khan et al., 2019). SOE stakeholders increased productivity and profitability (Du et al., 2015). During the privatization process, it was important to ensure that stakeholders were actively involved (Poczter, 2016). This activity aimed to convince prominent internal and external stakeholders of the benefits of the privatization undertaken and to gain support from stakeholders to achieve the cooperation expected by the company.

Success Factors of SOEs’ Privatization

The company's financial performance was measured by analyzing the ratios in the financial statements. There were factors that brought success to the performance of the financial section of a state-owned enterprise. The following are the success factors of SOE financial performance (Cuong et al., 2019) (Wandezori et al., 2018):

1. The Proportion of State Ownership

   It was often said that SOEs were important for the economy of their country (even in the non-strategic sector), such as hiring workers who could not be easily employed elsewhere or providing livelihoods for households in economically stressed areas (Nasir et al., 2017). Another motivation for state ownership was the strategic interests of certain industries (defense, utilities, natural resources, etc.). Another reason for the importance of government ownership is to fulfill public service obligations and protect against foreign competition.

2. Economic growth

   SOEs showed a lack of work patterns. Over the past decade, private sector employment had proven to be more volatile, indicating an active and dynamic process of reallocation of workers, which was essential for economic growth. SOEs, on the other hand, consistently showed less dynamic. With the privatization, the performance and profits were likely to increase due to the cooperation of stakeholders. Things that were less efficient in running the company could be gradually reduced.

3. Period of operation

    Privatization generally occurred in four periods. Each period had unique political and economic attributes:
    - Period 1: It could be defined as the period in which an entity operates as a SOEs. Whether to privatize a company will probably be debated during the first period. No privatization steps were taken during this period.
    - Period 2: At the beginning, this period was limited in the model by making decisions and announcing the privatization of SOEs. During this period, two SOE assets were owned and controlled by the state, but plans for privatization were implemented and issued. Uncertainty about the operation and future of SOEs increased during period two. (The next uncertainties, which continued into period three, had important implications for the problem of financial contracts).
    - Period 3: The beginning of period three was limited by the sale (and transfer) of property rights and assets to the private sector. Sales could occur by purchasing management, stock flotation, or other techniques to recognize and allocate company
property rights in the private sector. Regardless of the privatization technique used, the control of SOE shifted to the private sector. This period was characterized by new ownership and (most likely) a set of new or narrower goals, such as maximization of wealth. Period two and three were the dynamic periods of the privatization process because during these two periods the organization underwent a change initiated by the privatization proclamation.

• Period 4: The beginning of period four (314) was not as clearly defined as the beginning of the previous three periods. Conceptually, the fourth period began when the company's operations obtained a balance (after-sales). In terms of the agency theory framework used in this study, a balance was not obtained until contracts between all company principals and agents, including those that crossed organizational boundaries (such as contracts between company representatives, such as, salespeople, customers, and suppliers), had been negotiated or reaffirmed. The company considered to be in a period four if all adjustments caused by the privatization had completed.

4. Company size
The size or scale of the business became important to determine competitiveness.

5. Business risk
Adequate socialization related to the aims, objectives, targets, and strategies taken by the government in the context of privatization of an SOE had to be done. Socialization regarding the privatization system and procedures had to be carried out, especially for those who were related to the privatization of SOEs.

There were major factors that created differences in SOE financial performance after privatization (Meyer et al., 2013):
1. The company size
2. The proportion of state ownership
3. The centralized ownership or ratio of director ownership in the company
4. The company risk
5. Whether a chairman of the board of directors or chief executive officer is a representative of state ownership or private ownership
6. The company's revenue growth
7. The changes in the board of directors
8. The debt ratio of a company
9. The field of business of a company
10. The management in a company
11. The macroeconomic improvement
12. The trade liberalization
13. The development of the stock market

Another factor that determines success was ensuring that key stakeholders were involved with the aim of convincing prominent internal and external stakeholders of the benefits of this, and to get their support for the alliance (Wandebori et al., 2018).

Considerations During Privatization
There were things that must be considered when an SOE was decided to be privatized. Partners had to ensure that the business would not lay people off, in fact it had to seek to recruit additional people if possible (Wandebori et al., 2018) (Mehmood et al., 2013). Other things that had to be considered were (Liao, 2014):
1. Prioritizing and sorting the events of privatization
2. Determining the level of private ownership in partial privatization, where local governments balanced various economic, financial, and political objectives

Performance of SOEs after Reducing Government Ownership
SOEs generated less income than private companies engaged in the same field, incurred a large cost of production on wages, and as a consequence were significantly less
profitable. These results did apply not only to certain regions but also in almost all countries and sectors. Looking at the problems that underlay significant performance differences, it appeared that state-owned companies were inefficient in the use of resources, especially labor. If SOEs were as efficient as private companies, their output profits would be quite large (Liao et al., 2014).

Reducing ownership in SOEs increased company performance (Khan et al., 2019). The financial and operating performance of privatized SOEs was significantly higher than that of private companies (Gakhar et al., 2018). The increase was in terms of Return on Assets, Cash Flow from Operations, and Asset Turnover. After privatization, profits and output from the companies investigated were much higher than those of the previous privatization (Wandebori et al., 2018). However, there was no significant change in leverage (Cuong et al., 2019) (Poczter, 2016). In addition, several indicators of SOE's financial position and efficiency after privatization also showed remarkable improvement (Rakhman, 2018) (Chakrabarti et al., 2017). Reduction of ownership in the natural sector also had many advantages, provided the sector had abundant resources and was under strict supervision by the government (Cosset et al., 2019) (Wang et al., 2016).

The government could maintain tight control by turning to golden shares and nominating politicians and bureaucrats for newly privatized company boards for extra supervision (Celasun et al., 2013) (Meyer et al., 2013). When the state decided to privatize SOEs, strengthening corporate governance and its performance could increase fiscal revenue from sales (Celasun, 2013) (Kang et al., 2012). The majority of privatization was successful because it had already been considered before (Clarke et al. 2009).

**Corporate Social Responsibility in SOE Privatization**

When SOEs reduced state ownership, there was a decrease in the performance of SOEs’ Corporate Social Responsibility (CSR) (Cuong, 2019). Therefore, SOEs had to maintain state ownership with a greater percentage of private ownership and adopt SOEs’ policies that were concentrated on improving CSR performance (Khan, 2019). Increasing social activities that had a positive impact on the wider community was important after SOEs were privatized (Nasir et al., 2017).

**CONCLUSION**

The privatization of SOEs was generally only partial or not in full. The majority of privatization had a positive impact on SOEs because there were many sectors that could be improved. There was a sensitive sector for privatization, which was the natural sector. If needed, it required strict supervision by the government. Privatization brought many advantages in terms of financial performance and the resulting profits. This research was conducted to find out the increase in performance both in terms of performance, income, and CSR through privatization. In addition, this research was conducted to find out whether there were parts that had become worse after privatization. Based on the discussion above, there were several activities that existed in the privatization of success factors, things to be considered in the process, CSR in privatized SOEs, and performance after reducing government ownership. However, there was no denying that there were parts that experienced a decrease, namely CSR in the company. The solution was to increase social activities that could benefit many people and the environment. If privatization was needed, there was a thing to be considered. If possible, the amount of employees should not be decreased. In fact, it should be increased.***
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