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Post-Privatization Organization Ownership Structure and Performance โครงสร้างความเป็นเจ้าของบริษัท ภายหลังการแปรรูปกับผลการดำเนินงาน

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บทคัดย่อ

บทความวิชาการนี้มีวัตถุประสงค์เพื่อศึกษาถึงความเชื่อมโยงกันระหว่างผลการดำเนินงานของบริษัทกับโครงสร้างความเป็นเจ้าของบริษัทภายหลังการแปรรูป โดยการทบทวนงานวิจัยต่างๆ ที่เกี่ยวข้องประเด็นสำคัญที่พบ ได้แก่ การแปรรูปบริษัทที่รัฐเป็นเจ้าของจะทำให้ต้นทุนที่เกิดจากการควบคุมของรัฐลดลง แต่ต้นทุนที่เกิดจากความไม่สอดคล้องกันของเป้าหมายระหว่างผู้บริหารและผู้ถือหุ้นอาจเพิ่มขึ้น ถ้าการแปรรูปนี้ไม่มีผู้ถือหุ้นรายใหญ่จากภายนอกที่มีสิทธิควบคุมบริษัท และภายหลังการแปรรูป บริษัทที่มีโครงสร้างความเป็นเจ้าของแบบกระจุกตัวจะมีผลการดำเนินงานที่ดีขึ้นมาก ทั้งนี้ความสัมพันธ์เชิงบวกระหว่างการกระจุกตัวของโครงสร้างความเป็นเจ้าของบริษัทกับผลการดำเนินงานของบริษัทจะมีอิทธิพลมากขึ้นในประเทศที่มีการป้องกันนักลงทุนในระดับต่ำ นอกจากนี้บริษัทที่มีการกระจุกตัวของโครงสร้างความเป็นเจ้าของสูงจะไม่นิยมแปรรูปบริษัทโดยการขายหุ้นต่อสาธารณะ

คำสำคัญ: การแปรรูปบริษัทที่รัฐเป็นเจ้าของ โครงสร้างความเป็นเจ้าของบริษัท

Abstract

The objective of this paper is to study the link between performance and ownership structure of privatized firms by reviewing relevant literature. Major findings are as follows. First, without a large number of outside controlling shareholders, privatized firms' agency costs of managerial control may increase even though their costs of political control decrease. Second, privatized firms with more concentrated private ownership generate greater post-privatization performance. Next, a positive effect of ownership concentration on firm performance is larger in countries where investor protection is weak. Lastly, privatizations with more concentrated ownership are less likely to take place as public offerings.

Keywords: Post-privatization, Ownership Structure

Introduction

Almost every country has realized the benefits of privatization. Many studies show firm performance improvements following privatization. Hence, current privatization issues should focus on factors that cause improvements in firm performance. Firm post-privatization performance may improve because of changes in its ownership structure. Therefore, the objective of this paper is to review literature regarding post-privatization ownership structure and document the link between performance and ownership structure of privatized firms.

Overview of Privatization

The importance of privatization has been increasing since the early 1980s because privatization leads to an increase in state

revenue, an improvement in economic efficiency, a reduction in government interference in the economy, an increase in share ownership, a greater opportunity to introduce competition, a greater focus of state-owned enterprises (SOEs) on market discipline, and development in the national capital market.

There are four methods of privatization. The first method is privatization through restitution. This method is appropriate when expropriated property can be returned to either original owners or their heirs. The second method is privatization through sale of state property. According to this method, a government raises cash through an ownership claim sale. Additionally, state property can be sold in two forms: direct sales (or asset sales) of SOEs and share issue privatizations

(SIPs). The third method is mass or voucher privatization. This method allows eligible citizens to use vouchers to bid for stakes in SOEs or other assets. The fourth method is privatization from below involving the startup of new private businesses in formerly socialist countries.

As a result of privatization, there are two changes (Boycko, Shleifer, and Vishny, 1996: 309-319). The first change is corporatization, which is a change from control by politicians to managers. The second change is the reduction of cash flow ownership by the Treasury and the increase of cash flow ownership by managers and outside shareholders. Hence, privatization helps control political discretion. In addition, many studies support the improvement of firm performance following privatization.

According to the study of 79 privatized firms during 1980-1992 in 21 developing countries (Boubakri and Cosset, 1998: 67-77), and the study of 85 privatized firms during 1990-1996 in 28 industrialized countries (D'Souza and Megginson, 1999: 1397-1438), there are significant increases in profitability, output, operating efficiency, and dividend payments as well as a significant decrease in leverage. With respect to the study of 103 privatized firms during 1993-2003 in both emerging markets and developed countries (Mathur and Wanrapee Banchuenvijit, 2007:

134-146), similar results are found, including an increase in profitability, operating efficiency, capital spending, output, and dividend payments, as well as a decrease in leverage and total employment. As shown above, privatization helps improve firm performance in a wide variety of countries, industries, and competitive environments. However, not every privatization improves firm performance. For instance, in low-income economies, privatization is more difficult to initiate, and less likely to generate quick, positive effects (Birdsall and Nellis, 2003: 1617-1633).

Privatization has also become one of the major programs used to recover Thailand's economy because the objectives of privatization are to increase competition and foreign investment, and to attract capital investment for infrastructure and technology improvement. In 2003, the number of SOEs had declined to 84 enterprises, of which 61 were owned and regulated by the Ministry of Finance (MOF); two were independent SOEs; three were financial institutions under the control of the MOF; and 18 were subsidiaries or separate legal entities (Sakulrat Montreevat, 2004: 92-93). In another study, Rondinelli and Vuthiphong Priebjivat (2000: 623-650), evaluated opportunities for investment in privatization projects in Thailand. They found that the success of privatization depends on

the government's willingness and ability to cope with the issues most crucial to opposition groups, and the use of at least part of the proceeds from privatization to enhance the safety net for those adversely affected by changes in ownership.

Furthermore, privatization also affects international corporate governance practices. The tremendous increases in both the total value of security issues on global capital markets and the total value of mergers and acquisitions worldwide cause the analysis of international patterns in corporate governance and securities laws to become increasingly important.

Privatization from Corporate Governance Perspective

Without the addition of a large number of investors, privatized firms' agency costs of managerial control may rise, even when their costs of political control fall. For example, in the United Kingdom, managers of privatized firms such as water utilities receive large wage increases because there are no controlling outside shareholders in these firms, leaving managers with more discretion (Wolfram, 1998: 327-361).

In Russia, privatization illustrates both the benefits and the costs of concentrated ownership without legal protection of minority

investors (Boycko, Shleifer, and Vishny, 1995: 47-68). Privatization in Russia has led to a controlling ownership by management in many companies. The management has taken over not only control rights but also cash flow rights, leading to dramatically improved incentives. Nevertheless, some of the most successful privatizations in Russia have been the ones where outside investors have accumulated enough shares to either replace or control the management. Such outside investors have been less capable of utilizing the profits for themselves than the managers, as well as better capable of maximizing these profits.

Currently, a method of public share offering is chosen for the process of privatization in Thailand. There have been a number of listings on the Stock Exchange of Thailand (SET) since 1997 such as PTT Exploration and Production in 1997, Petroleum Authority of Thailand (PTT) and Internet Thailand in 2001, and Bank Thai and Krung Thai Credit Card in 2002. Consequently, the country's capital market has been strengthened due to a dramatic increase in the stock market capitalization. Moreover, as more SOEs are listed on the stock exchange, corporate governance of the enterprises will be improved. (Sakulrat Montreevat, 2004: 92-93)

In addition, the link between privatization and corporate governance, as well as the

concept of governance chains, were introduced in Dyck (2001: 59-84). There are two types of chains: (1) a private governance chain in which few institutions are responsible for providing information and accountability, and (2) a formal governance chain in which the specialization of information and accountability increases the length of the chain. Both links are strong; however, formal governance chains are more effective. Hence, in order to obtain effective privatization, the governance chain that has the greatest probability of success should be employed in the first instance. Then, each link should be strengthened as much as possible.

Ownership Structure after Privatization

There are four determinants of ownership structure (Demsetz and Lehn, 1985: 1155-1177). The first determinant is *value-maximizing size*. An inverse relationship between firm size and ownership concentration is to be expected. Larger firms realize a lower overall cost with a more diffuse ownership structure than do small firms. The choice by owners of a diffuse ownership structure is consistent with stockholder wealth-maximizing behavior. The second determinant is *control potential*. The wealth gain is achieved through more effective monitoring of managerial performance by a firm's owners. If the market for corporate control and the managerial labor market

perfectly align the interests of managers and shareholders, then control potential would be useless in explaining corporate ownership structure. The third determinant is *regulation*. Regulation assists in monitoring and disciplining the management of regulated firms. Regulation also causes a reduction in ownership concentration. The last determinant is *amenity potential of a firm's output*. Ownership should be more concentrated in firms for which the amenity potential is greater. Moreover, the structure of corporate ownership varies systematically in ways that are consistent with value maximization.

There is an association between ownership structure and post-privatization performance. Megginson and Netter (2001: 321-389) summarize empirical studies of privatization in transition economies (Central and Eastern Europe) and document that privatized firms with concentrated private ownership, foreign ownership, firm-level restructuring, and new managers lead to greater post-privatization performance improvements than their counterparts. Moreover, Boutchkova and Megginson (2000: 67-77) examine the evolution of share ownership in large SIPs. They find a significantly higher number of shareholders in the privatized companies than in the matching private-sector (non-privatized) sample companies. However, the extremely

large numbers of shareholders created by many SIPs are not a stable pattern of corporate ownership because many new stockholders do not retain the shares they purchase.

Boubakri, Cosset, and Guedhami (2003: 369-399) studied privatized firms worldwide during 1980-2001 and found a decrease in government control as well as an increase in private ownership concentration over time. In addition, the cross-firm differences in ownership concentration can be explained by firm size, firm growth, industry affiliation, privatization method, the level of institutional development, and the level of investor protection.

In most cases, privatization replaces political control with private control by outside investors. Concurrently, privatization in most countries creates concentrated private cash flow ownership together with control. Switching to the relatively more efficient ownership structures leads to significant improvement in privatized firms' performance (Lopez-de-Silanes, 1997: 965-1025; Megginson, Nash, and Randenborgh, 1994: 403-452).

Recently, in mid-1999, O'Neill, Rondinelli, and Tibordee Wattanakul (2004: 49-74) surveyed 469 employees in 28 Thai firms (9 private enterprises, 11 state-owned enterprises, and 8 mixed-ownership enterprises) after the Thai Baht collapse and the subsequent financial crisis. They evaluated the effect of

differences in ownership on the level of corporate entrepreneurship, human resource management practices, and worker effort. They found that mixed ownership may be an effective transitional form of restructuring state enterprises in preparation for private ownership. They also suggest that, during menaced economic times, utilizing changes in ownership as a potential means for initiating organizational changes that lead to increased productivity should be undertaken with great care.

Level of Investor Protection Influence on Post-privatization Ownership Structure

According to Shleifer and Vishny (1997: 737-777), the extent of legal protection provided for investors varies enormously around the world. In the United States, Japan and Germany, laws protect the rights of at least some investors, and the courts are relatively willing to enforce these laws. However, the legal system leaves managers with considerable discretion. In most of the rest of the world, laws are less protective of investors. Courts also function less well and stop only if the clearest violations of investor rights exist. Consequently, legal protection alone becomes insufficient to ensure that investors will get their money back. If legal protection does not give enough control rights to small

investors, then perhaps investors can get more effective control rights by being large. Thus, the concentration of ownership (in the forms of large shareholders, takeovers, or large creditors) provides leverage for legal protection.

Moreover, La Porta, et al. (1998: 1113-1150) examined 49 countries around the world regarding laws governing investor protection, the quality of enforcement of these laws, and ownership concentration. They found differences in laws and law enforcement between countries, and suggest that countries develop substitute mechanisms for poor investor protection. Consistent with weak protection laws for shareholders, ownership concentration is extremely high worldwide. Additionally, decent accounting standards and shareholder protection measures are related to a lower concentration of ownership, indicating that concentration is indeed a response to poor investor protection.

The positive effect of ownership concentration on firm performance matters more in countries with weak investor protection (Boubakri, Cosset, and Guedhami, 2003: 369-399). Furthermore, legal origin seems to affect the governments' incentives to sell large stakes in privatized companies and eventually to relinquish control. Contrary to common law countries, governments based on civil law are reluctant to privatize. For example, French law

countries are more interventionist and protect shareholders poorly so that privatization is often unwanted or unfeasible. German law countries protect creditors well and are bank-dominated. However, in this case banks might be averse to privatization because they are afraid of losing a part of their business as SOEs would switch from debt to equity finance (Bortolotti, et al., 2000: 1-40).

Link between the Design of Privatization Programs, Post-privatization Ownership Structure, and Investor Protection

Dyck and Zingales (2004: 537-600) measured the private benefits of control in 39 countries based on 412 control transactions during 1990-2000. The value of control ranges between 0.4% and 65%, with an average of 14%. The findings are as predicted by theory: privatizations with larger private benefits of control in less developed capital markets and with more concentrated ownership, are less likely to take place as public offerings.

In addition, Megginson, et al. (2004: 2835-2870) examined the impact of political, institutional and economic factors on the choice between selling a SOE in the public capital market through a SIP and selling it in the private capital market in an asset sale. They found that SIPs were more appropriate for

less developed capital markets, more profitable SOEs, and markets with more protections for minority shareholders. Asset sales are more likely when there is less state control of the economy, and when the firm is smaller. The results also suggest the importance of privatization activities in developing the equity markets of privatizing countries.

Conclusion

The privatization programs of the last twenty years have significantly reduced the role of SOEs in the economic life of most countries. Most of this reduction has occurred in developing countries only during the 1990s. Research also supports the proposition that privately owned firms are more efficient and more profitable than state-owned firms. Thus, privatization works in the sense that divested firms almost always become more efficient, more profitable, and financially healthier.

Regarding previous studies, concentrated private ownership and foreign ownership lead to greater post-privatization performance improvement. This positive impact of ownership concentration on firm performance matters more in countries with poor investor protection. Furthermore, SIPs are more appropriate for less developed capital markets, more profitable SOEs, and markets with higher level of minority shareholder protections, whereas asset sales

are more likely when there is less state control of the economy, and when the firm is smaller.

Nevertheless, Young (1998: 2-7) suggests that privatizations will be much more politically difficult in the future because most governments have not yet privatized companies that are obviously over-staffed and excessively indebted, and which SOEs will need painful financial restructuring and massive layoffs before they can attract private buyers. In spite of these difficulties, the future of privatization is bright because, in most countries, privatizations have yielded greater and more immediate economic payoffs with less economic and political pain than expected.

Suggestions for Future Research

First, future research should focus more on emerging countries and on the determinants of ownership structure after privatization issues (i.e., concentrated ownership, diffuse ownership, private ownership, domestic ownership, and foreign ownership) as well as the relationship between the selected ownership structure and post-privatization performance. Next, future research should investigate whether the choice of post-privatization ownership structure is different across the types of law (Common law versus Civil law). In addition, future research should pay more attention on how the privatization

method (i.e., privatization through restitution, privatization through sale of state property, mass or voucher privatization, and privatization from below) affects the post-privatization ownership structure as well as firm performance after privatization. Finally, future research should concentrate on the difficulties of future privatization as mentioned in Young (1998: 2-7), and examine the association between post-privatization ownership structure and performance of these firms is consistent with previous literature.

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