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Operating and stock market performance of state-owned enterprise privatizations: The Spanish experience ☆

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Abstract

We investigate the operating and stock market performance of Spanish state-owned enterprises (SOEs) privatized through public share issue offerings (SIPs) from 1990 to 2001, when the last SIP was conducted. We compare the performance of SOEs and privately-owned firms. We find significant operating improvements in Spanish SOEs after the privatization. Specifically, they show significant increases in income efficiency, real sales and employment. Spanish governments tried to minimize the foregone proceeds when selling SOE shares and underpriced them lower than private firms. We relate these results with the pressure of the Maastricht Treaty fiscal criteria, as well as lower information asymmetries between firms and investors. Finally, we do not find long-term abnormal stock market performance after SIPs.
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1. Introduction

This is a comprehensive study of the operating and stock market performance of Spanish state-owned enterprises (SOEs) privatized through public share issue offerings from 1990 to 2001, when the last SIP was conducted. During this process, Spanish governments sold SOE assets to private economic agents for a total amount of 31 billion euros. Although other European governments also launched large privatization programmes during the 1990s, Megginson and Netter (2001) describe the Spanish experience as "spectacular".

Being a worldwide phenomenon, SOE privatizations have been widely studied from both theoretical and empirical perspectives, since such activities involve policymakers, investors,

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consumers and workers. Obviously, studies are necessary in order to provide enough background and knowledge about the consequences and undesired deviations from original objectives. Broadly speaking, the goals of privatization are to (i) raise revenue for the state; (ii) promote economic efficiency; (iii) reduce government interference in the economy; (iv) promote wider share ownership; (v) provide the opportunity to introduce competition; (vi) subject SOEs to market discipline; and (vii) develop the national capital market.[1] As a consequence of the complexity of these goals, countries have chosen different methods for carrying out their privatization policies. Brada (1996) proposes four categories of classification of privatization methods: (i) privatization through restitution; (ii) privatization through the sale of state property (as either direct sales or as share issue privatizations "SIPs"); (iii) voucher privatization; and (iv) privatization from below.

Most of the academic studies on the privatization topic have focused on examining the effect of privatizations on the financial and operating performance of firms privatized through share offerings.[2] The evidence indicates significant improvements in operating performance, which, in turn, does not seem to support the market failure argument against government intervention. However, only a few studies exist that analyse the market performance of SIPs. Comstock, Kish, and Vasconcellos (2003) claim that SIPs are expected to have a stock market performance similar to private-sector equity public offerings. Accordingly, state-owned firm privatizations reveal two key characteristics analogous to privately-owned firms, that is, initial underpricing and long-term underperformance. From the investors' point of view, stock market information is extremely relevant as they may be involved with the initial or seasoned public offering and, therefore, they need to know how privatization offers tend to perform in both the short and the long run.

The primary objective of this study is to present evidence of the Spanish SOE privatization experience through SIPs during the 1990s and early 2000s. We focus on this method of transferring property from the state to the private sector because Spanish governments have raised more than 83% of the total amount of privatization revenues from share issue offerings. Consistent with the international evidence, Spanish governments sold the so-called "crown jewels" through SIPs, that is, large and well-known Spanish enterprises, most of them from strategic industries such as energy, telecommunications, banking or airlines. We relate the Spanish privatization "boom" during the 1990s to two main factors: (i) that of economic liberalism reaching a peak during that period, and (ii) the necessity of meeting the Maastricht Treaty fiscal criteria in order to enter the European Monetary Union Third Phase in 1999.

Our results show that Spanish SOEs improved their efficiency and increased their real sales, capital expenditures and employment after going public, but not their profitability. We interpret this as meaning that SOE firms were mainly interested in growth as a strategy to reduce the risk of a hostile takeover that could transfer the ownership of national strategic companies to foreigners once "golden share" protection had ended. Furthermore, and consistent within the context of strong fiscal pressure due to the necessity of meeting the Maastricht Treaty fiscal criteria in order to enter the European Monetary Union Third Phase, we find that Spanish governments tried to minimize the foregone proceeds when conducting the SIPs. Results from long-term stock market performance support the idea that investors who purchased SOE shares were correct in assuming that Spanish SOE issues were rationally priced by the markets, as we do not detect significant long-term abnormal returns after SIPs.

[1] See Megginson and Netter (2001) for a detailed discussion of these goals.

[2] Section 3 presents evidence on operating and stock market performance of SOEs privatized through share offerings.

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