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The performance of newly privatized firms in selected MENA countries: The role of ownership structure, governance and liberalization policies ☆

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Abstract

The paper analyzes 95 newly privatized firms (NPFs) in four Middle Eastern and North African countries (Egypt, Morocco, Tunisia, and Turkey). We find that these firms experienced significant increases in profitability and operating efficiency, and significant declines in employment and leverage. We also document strong performance improvements for firms that did remain state-owned, that were not sold to foreigners, and that came from Egypt. Job losses are higher in Egypt and in firms where the state is no longer in control. Also, the results indicate that revenue firms and NPFs in Morocco display significantly less leverage than control firms and those from other countries. We find that profitability changes are negatively related to state control and positively related to foreign ownership. Trade openness, change in real GDP over the privatization window, index of investor protection, and foreign ownership are important determinants of the changes in sales efficiency and output. These findings suggest that NPFs become more

☆ The views expressed in this presentation reflect our own views and do not necessarily represent those of the IMF, the managing director, the executive board, or IMF policy.

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productive in environments where property rights are better protected and enforced and that foreign investors influence firms' productivity through their monitoring role.

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1. Introduction

Privatizing state-owned enterprises (SOEs) is considered the main vehicle to reinforce and improve private sector performance. In fact, during the past two decades, privatization has become an important global economic phenomenon. Since large-scale privatization was first launched by the Teacher government in Great Britain, approximately $1.25 trillion has been raised. Moreover, share issue privatizations (SIPs) accounted for $750 billion between 1980 and 2000 (D'Souza, Megginson & Nash, 2001). This phenomenon is well documented for several developed and developing countries around the world.

Privatization in the MENA region has progressed at a slower pace than in other developing countries, such as in Latin America and Asia. This may be because privatization efforts in many MENA countries are hindered by embryonic capital markets, scarce financial resources, weak private sectors, and poor prudential regulations. As a result, the privatization process in the region encounters serious socio-political challenges because it is widely perceived as an attempt to facilitate recolonization—to the extent that foreign investors participate and make windfall profits by cutting jobs and repatriating earnings.

Although a few studies have provided some evidence for other developing countries, the MENA experience has remained unexplored. In this study, we try to bridge this gap by extending the literature to the specific context of MENA to assess whether privatization has delivered its promises. We also investigate the impact of different ownership structures, corporate governance, and economic and financial liberalization on firm performance.

Using a sample of 95 SIPs that took place in Egypt, Morocco, Tunisia, and Turkey from 1993–2001, we find that these firms experienced significant increases in profitability (return on sales) and operating efficiency (net income efficiency), and significant declines in employment and leverage following privatization. We also split our sample firms into several dichotomous sub-samples and find strong performance improvements in firms that remain state-controlled, that are not sold to foreigners, and that are from Egypt. Job losses are more severe in Egyptian firms that are no longer state-owned. Also, the results indicate that revenue firms and newly privatized firms (NPFs) in Morocco have significantly less leverage than control firms and those from other countries. As for the sources of these performance changes, profitability declines when the government gives up control and profitability increases when a firm's ownership is transferred to foreign interests. Trade openness, change in real GDP around the privatization window, index of investor protection, and foreign ownership are important determinants in sales efficiency and output changes. These findings suggest that NPFs become more productive in environments where property rights are better protected and enforced and that foreign investors influence a firm's productivity through their monitoring role.

The rest of the paper is organized as follows: Section 2 highlights the institutional framework of privatization in the four selected MENA countries. The conceptual framework and testable hypotheses are presented in Section 3. We introduce the data and methodology in Section 4 and we report the empirical findings and analysis in Section 5. Conclusions are given in Section 6.