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The Privatisation of Public Assets as an Economic Policy Instrument: Private versus Public Ownership of Companies – Empirical Evidence and Considerations for Industrial Location Policy

The existence of competitive markets is an important prerequisite for privatisation to be successful from a macroeconomic perspective. For this reason it is a vital task of the government to ensure well-functioning free-market competition or (re-)establish it by means of the corresponding regulation and competition policy. There is a pronounced public concern over companies providing services of general interest ("Daseinsvorsorge"), which may justify a permanent strategic investment of the government as a core shareholder. There is no need, either on grounds of company law or from an economic perspective, for a more far-reaching government involvement in companies to protect the public interest.

This study is conceived as a series of three articles. The first article (<http://www.wifo.ac.at/wwa/pubid/42850>) dealt with the theoretical foundations and mutual relations between private and government ownership of companies. This second part focuses on the empirical evidence and investigates which extent of government withdrawal from state-owned enterprises would be optimal from the perspective of industrial location policy. Finally, the third article (forthcoming) will be dedicated to the practical implementation of privatisation projects and conclusions for economic policy. • The author is thankful to Gunther Tichy for useful and constructive comments • The data were processed and analysed with the assistance of Elisabeth Neppi-Oswald • E-mail addresses: Michael.Boeheim@wifo.ac.at, Elisabeth.Neppi-Oswald@wifo.ac.at

Numerous empirical economic studies on the advantageousness of public compared to private ownership of companies have been published during the last 20 years (Table 1). This research covers a wide range of industries and countries.

The international empirical evidence is unequivocal: by the standards of economic science private ownership is the more efficient and more profitable form of ownership. Only in narrowly defined exceptions or under very special circumstances, particularly if the respective regulation has failed to establish well-functioning competition, public ownership can produce economically superior results (Megginson, 2005).

A comprehensive meta-study (Megginson – Netter, 2001) draws the following summary conclusions:

- The privatisation programmes have contributed significantly to a reduction of the importance of state-owned enterprises in their national economic systems.
- The studies corroborate the hypothesis that private companies work more efficiently and more profitably than comparable state-owned companies.
- In the initial public offerings (IPO) of former state-owned enterprises domestic investors are often somewhat favoured over foreign ones.
- According to most studies employment in privatised companies declines. However, it remains undecided whether privatisation also leads to a reduction of aggregate employment.
- First buyers in the IPO of former state-owned companies earned clearly positive yields, even if they held the shares for several years.
- In countries where large-scale privatisations or entire privatisation programmes were implemented, market capitalisation and trade volume in the national stock market rose rapidly.

Empirical evidence

International empirical evidence

- Privatisations resulted in a marked improvement of national financial market regulation. In particular, they contributed to a partly significant improvement of the shareholder culture of the respective countries.

Table 1: Selected international empirical studies on "public versus private ownership"

Study	Findings and conclusions	Private ownership more efficient/ profitable
<i>Boardman – Vining (1989)</i> Economic performance of the 500 largest companies in the USA in 1983; classification into public, private and "mixed" ownership; four indicators of profitability and two of x-inefficiency	State-owned companies are significantly less profitable than private companies; companies in "mixed" ownership are not significantly more profitable than state-owned companies. Private ownership is superior, because it is the only way to ensure efficient management.	Yes
<i>Vining – Boardman (1992)</i> Influence of the form of ownership or the intensity of competition on efficiency; 500 largest companies outside the financial sector	Privately owned companies are more profitable than companies in "mixed" ownership, which are, in turn, more profitable than state-owned companies. The form of ownership is a decisive factor.	Yes
<i>Ehrlich et al. (1994)</i> Influence of public ownership on the long-term trend of productivity and costs of 23 airlines during 1973-1983	In the long run public ownership coincides with productivity growth that remains 1.6 to 2.0 percentage points lower a reduction of unit labour costs, which is 1.7 to 1.9 percentage points lower than in private companies. Effects of the form of ownership are not independent of the intensity of competition	Yes
<i>Majumdar (1996)</i> Relation between the form of ownership and efficiency in Indian companies in 1973-1989 by industries	The efficiency indicator of private companies (0.975) is significantly higher than that of companies in mixed ownership (0.912) or in public ownership (0.638).	Yes
<i>Kole – Mulherin (1997)</i> Economic performance of (partly) nationalised and private companies	The performance of state-owned companies is not significantly inferior to that of private companies. No form of ownership is superior.	Indifferent
<i>Ros (1999)</i> Effects of competition and privatisation on the network infrastructure in the telecommunications markets of 110 countries during 1986-1995	In countries where the share of private ownership is at least 50 percent network density and growth rates are significantly higher. Both enhanced competition and privatisation have exerted a positive influence on network expansion.	Yes
Study	Findings and conclusions	Superiority of private ownership
<i>Dewenter – Malatesta (2001)</i> Profitability, labour intensity and degree of indebtedness of public and private companies; 500 largest companies outside the USA for 1975, 1985 and 1995	Private companies are significantly more profitable, show lower degrees of indebtedness and labour intensity.	Yes
<i>Frydman et al. (2000)</i> Turnover growth of privatised companies which are either controlled by "outsiders", "insiders" or the government; 506 industrial enterprises in the Czech Republic, Hungary and Poland	Companies with "outsiders" as investors show a significantly higher turnover growth. The difference is attributed to better incentives.	Yes
<i>Laurin – Bozec (2000)</i> Productivity and profitability of two large private Canadian railway companies before and after the privatisation of Canadian National (CN) in 1995 for various sub-periods during 1981-1997	Long before the privatisation the total factor productivity of CN was considerably lower than that of private companies, immediately before privatisation it was identical and after privatisation it was higher. CN's layoffs were almost double those of private companies. Productivity doubled and capital cost increased sharply after privatisation.	Yes
<i>Bartel – Harrison (2002)</i> Influence of form of ownership or framework conditions on the inefficiency of state-owned companies in Indonesia in 1981-1995	Both the form of ownership and the industrial structure play a significant role.	Yes
<i>La Porta et al. (2002)</i> Influence on public ownership of banks on the financial system, economic growth and productivity trends in 92 countries; state ownership based on motives of "benevolence" or "power politics"	Extensive public ownership of banks exists above all in developing countries; it negatively affects economic development, productivity and growth. Empirical evidence confirms the existence of power motives.	Yes

Source: Megginson (2005), WIFO.

There is a (more) sceptical assessment of privatisation (and liberalisation) in studies focusing on the production of public services¹ (FORBA, 2009). The sectors mail ser-

¹ Within the PIQUE-Project the consequences of the privatisation of public services on quality, employment and productivity were analysed using the sectors mail services, local and regional public transport, electricity and hospitals in six EU countries (Austria, Belgium, Germany, the UK, Poland, Sweden) as examples (FORBA, 2009; see also <http://www.pique.at>).

vices, local and regional public transport, electricity and hospitals can be classified as services of general interest. For this reason public interest in an "extensive high quality supply at affordable prices" – and thus in a corresponding regulation of markets – is therefore particularly high (for details see below).

Due to the EU's targets ambitious liberalisation initiatives, which were accompanied by privatisations in some countries, were launched in these industries. However, the fundamental aim of liberalisation, i.e., the establishment of highly competitive markets, which enable the consumers of public services to choose from a large number of competing suppliers, has been achieved only to a very limited extent. The number of new suppliers entering the market was not as high as expected or the market concentration remained high nonetheless or, due to mergers, even increased further in some sectors. Instead of competitive markets oligopolistic markets, which were dominated by few companies (usually former state monopolies) emerged. For this reason, competition among suppliers of public services is still limited in most industries and countries (Table 2).

Table 2: International comparison of the intensity of competition in selected service sectors

	Postal services	Electricity supply	Local and regional public transport	Hospitals
Austria	Limited	Limited	Limited	Limited
Belgium	Limited	Extremely limited	Extremely limited	Limited
Germany	Moderate	Limited	Moderate	Moderate
Poland	Extremely limited	Moderate	Limited	Limited
Sweden	Moderate	Moderate	Intense	Extremely limited
UK	Limited	Intense	Intense	Extremely limited

Source: FORBA (2009).

In those countries, where privatisations were carried out in these industries despite insufficient intensification of competition, former state monopolies were replaced by private oligopolies. As viable competition is an essential prerequisite for privatisations which are successful from a macroeconomic point of view (Böheim, 2011B), market-opening effects did not materialise to the positive extent that had been hoped for.

As FORBA (2009) shows, regulators failed in particular to initiate competition based on quality and innovation among suppliers of public services. Instead, the competition which did emerge focused almost exclusively on cost. As labour cost is a decisive cost factor in public services, efficiency and productivity gains were mostly achieved via adjustments in employment. In the former state monopolies employment decreased significantly across the board, which, owing to the special legal status of the staff in terms of employment protection, usually occurred in the form of "natural attrition" excluding lay-offs or social plans. The job losses in these companies could not be (fully) offset by job creation in the private companies newly entering the market. With respect to the quality of employment (in terms of the wage level and employment conditions) often segregated systems emerged, showing relatively stable structures in the case of the former monopolies and a general fragmentation of labour relations in the case of the new competitors.

Within the former state monopolies the workforce was divided into the original employees enjoying better "old" conditions and those who were hired recently at "new" less favourable conditions. Furthermore, functions were frequently outsourced to subsidiaries, whose staff, in the absence of any industry-wide collective agreement, are often employed at still less favourable conditions to ensure an edge in the cost competition with the new private suppliers. The share of part-time employment was also increased strongly (starting from a low level).

However, this does not allow the general conclusion that public service companies per se do not lend themselves to a (partial) privatisation. The expected positive effects of privatisation are not materialising, particularly because of the failure to create competitive markets beforehand via the required regulation. Privatisation can only be a complete success in competitive markets. Therefore, it is a sine qua non

for liberalisation to be accompanied by strict regulation policies with far-reaching authority as well as proactive competition policies. This applies particularly to network utilities, which, owing to their specific market characteristics, are biased against competition.

Besides the international analysis of public service industries discussed above (FORBA, 2009), *Schaffhauser-Linzatti* (2000) and *Rumpler* (2011) are the only two additional empirical studies on the economic consequences of the privatisation of public industrial companies for Austria.

On the basis of balance sheet indicators *Schaffhauser-Linzatti* (2000) examine the performance in 1985-1995 of 13 formerly nationalised companies², which were privatised via initial public offerings. The indicator groups of productivity, efficiency, investment, capital structure, liquidity and employment are identified as the relevant indicators best suited to reflect economic changes due to privatisation. According to the empirical analysis none of these six indicator groups with a total of 13 individual indicators showed a statistically significant change following the (partial) privatisation. Exceptions were the individual indicator of turnover profitability as a measure of productivity, profit per employee and, to a limited extent, turnover as well as labour cost per worker as measures of efficiency, the investment rate as a measure of investment activity and the ratio of reported equity to authorised capital as a measure of the capital structure. This statistical analysis contrasts with the international empirical evidence, which attests an improvement of the company's situation in almost all cases (see above). For this reason a cautious interpretation of these results seems appropriate – all the more so, as the findings of a recent study corroborate the international evidence (see below). However, an improvement of company performance as a consequence of privatisation tends to be observed in Austria.

For an analysis of the privatisation of four state-owned industrial companies (AT&S, Böhler-Uddeholm AG, OMV AG and voestalpine AG) *Rumpler* (2011) extends the period of investigation by 1½ decades compared to *Schaffhauser-Linzatti* (2000). For this significantly longer period (1985-2009), a substantial increase of the economic performance of the privatised companies is confirmed in line with the international empirical evidence. For instance, AT&S and OMV AG managed to increase their average annual turnover after privatisation five-fold and two-fold, respectively, whereas voestalpine AG and Böhler-Uddeholm AG recorded a growth rate of almost 40 percent each. Annual profits rose even more sharply in all companies. All four companies expanded their workforces due to the dynamic company growth, but most new jobs were created abroad (in most cases via acquisitions). In contrast to the generally declining trend of industrial employment in Austria, Böhler-Uddeholm AG and voestalpine AG report stable or slightly increasing employment at their domestic production sites, whereas OMV AG more than halved its workforce during the investigation period.

Beyond the narrow microeconomic analysis of economic performance *Rumpler* (2011) also studies the privatisations of OMV AG, voestalpine AG and Böhler-Uddeholm AG from a macroeconomic perspective³. From the government's point of view a privatisation can be evaluated as successful, if total payments to the government resulting from dividend payments to the government and corporate tax payments of the company are higher after the privatisation than they were before.

Both before and after the privatisation, tax payments are government revenues by definition. Before the privatisation dividends were paid exclusively to the government, after the privatisation this was the case only for the part, which corresponds to the remaining government share. If the privatisation does not contribute to a change in company performance, the government will merely have "swapped" the

² They are: AMS, Austrian Airlines, Böhler-Uddeholm AG, the energy supplier EVN, Flender AG, Vienna Airport, Immotrust, OMV AG, VAE, VA Stahl, VA Tech, the electricity supplier Verbund and Voith.

³ For AT&S it was impossible to construct a complete time series, which would have facilitated an assessment of the privatisation effects from a macroeconomic point of view.

(permanent) loss of dividends resulting from the privatisation for the (one-off) privatisation proceeds⁴.

In the framework of this notional model, a privatisation can only be considered a success from the privatising government's point of view, if it helps the company to perform better economically afterwards than it did under state ownership.

As the empirical evidence confirms the privatisations of Böhler-Uddeholm AG, OMV AG and voestalpine AG were "a very good bargain" for the Republic of Austria: following the majority privatisation, each of these three companies pays a much higher average amount (combined taxes and dividend) to the government every year than before. The OMV AG has almost doubled the annual average of its total payments, whereas voestalpine AG and Böhler-Uddeholm AG have recorded an increase of 25 percent and 17 percent, respectively (Table 3).

Table 3: Total payments to the government before and after privatisation

	Before privatisation			After privatisation			Difference	
	Corporate tax € 1,000	Dividend	Total	Corporate tax	Dividend	Total	€ 1,000	In percent
OMV AG	20,526	15,784	36,310	45,687	35,349	81,036	44,726	123.18
voestalpine AG	1,345	12,220	13,565	10,248	6,753	17,001	3,436	25.33
Böhler-Uddeholm AG	675	3,590	4,265	2,122	2,857	4,979	714	16.74

Source: Rumppler (2011), WIFO calculations.

These figures empirically disprove the hypothesis supported by "privatisation sceptics" that the one-off revenue from the sale of state-owned industrial companies was offset by a permanent loss of dividends and that privatisation was therefore of no economic benefit to the government (Müller, 2011). As all three industrial companies operate in competitive international markets, their economic performance could be spurred by the investments of private shareholders to such an extent that total payments to the government are significantly higher after the (partial) privatisation than before.

With respect to employment trends the findings are mixed (Rumppler, 2011). Whereas total employment has risen substantially in all three companies since the financial year in which the privatisation took place, domestic employment in the OMV AG has strongly declined. In the cases of voestalpine AG and Böhler-Uddeholm AG, by contrast, the downward trend of employment in Austria, which had already set in before the privatisation, could be reversed.

Thus, privatisation does not necessarily result in job losses at companies that operate in competitive markets. All three Austrian industrial corporations examined by Rumppler (2011) increased their workforce especially outside Austria (partly via organic business growth, partly via acquisitions), whereas domestically a substantial decline was recorded in some cases. However, this cannot be attributed exclusively to the (partial) privatisation of the respective company (OMV AG), because this trend had started long before. voestalpine AG and Böhler-Uddeholm AG considerably expanded their domestic workforce, too, albeit not to the same extent as employment outside Austria.

From the immediate after-war period until way into the 1980s Austria's economic structure was characterised by a high degree of public ownership in the form of the nationalised industry. From the middle of the 1980s onwards concepts and proposals to limit and privatise government functions were discussed. However, only the crisis

Considerations for industrial location policy

⁴ In a perfectly efficient capital market the net present value of a company is equal to the discounted value of future dividend payments at the time of valuation. Concerning privatisation the government would – from a merely financial point of view – be indifferent between the privatisation of a state-owned company and the retention of public ownership. According to this ideal model the government has sold the company to private investors too cheaply, if the discounted dividends exceed the privatisation proceeds, and vice versa.

of the nationalised industry at the end of the 1980s marked the beginning of a privatisation process driven by economic necessities. Austria's EU accession on 1 January 1995 added to the pressure for market liberalisation and other competition-oriented reforms.

Especially during the past decade Austria's economic policy makers went to great lengths to open product markets to competition. For instance, as part of an early liberalisation process, both industrial users and commercial as well as private consumers were offered the opportunity to switch to alternative suppliers of network services (particularly in energy supply and telecommunications). This was complemented by the reduction of entry barriers and by initiatives for administrative simplifications in crafts and trade (2002 amendment to the Trade Regulation Act), whereas similar market-oriented reforms were not implemented in the field of professional services. As expected, many of these competition-oriented measures translated into price reductions and quality improvements as well as productivity gains and adjustments in the product range and thus did not only have a positive effect on the efficiency and performance of the companies and their own industries, but, via supply relations, also affected other sectors.

Owing to the privatisations, government influence in the Austrian business sector strongly declined, although the pace of the privatisation process slowed compared to that in other OECD countries in 1998-2008. Nevertheless, the scope and size of the public business sector are still (substantially) above the OECD average (Böheim, 2011B).

In the public debate the causes of the financial and economic crisis are often attributed uncritically to market or government failure. Indeed, elements of both exist internationally, as financial institutions exploit regulatory gaps and practice "regulatory arbitrage", while the governments have not provided a sufficient framework to ensure market functioning (Böheim, 2011A). To overcome this flaw "smart regulation" is necessary. In some areas (e.g., banks and financial sector) it can imply a tightening of regulation, in others (e.g., energy supply, professional services), by contrast, it can offer scope for further deregulation. Furthermore, the financial crisis has shown that public ownership does not necessarily guarantee stability in every case. The government can withdraw from business activity in an "intelligent" way, which does not impair market stability. Such a withdrawal of the government seems appropriate for those state-owned companies, where a special public interest does not or no longer exist.

As soon as the principal decision in favour of the state's withdrawal from a public company has been made, the question about the scope of this withdrawal arises. Below the two options of full and partial privatisation are analysed against the backdrop of their political feasibility. This means that the options are not only assessed on the basis of purely economic considerations, but also with respect to their social and political acceptance as an important prerequisite for their implementation.

There is a continuous scale between "complete state-ownership" and "complete private ownership". A complete withdrawal of the government via full privatisation leads from one extreme position in this scale to the other. For many fields, the empirical evidence shows a clear economic superiority of private ownership of companies (see above). Most studies favour a complete private ownership irrespective of the industry.

In any case, these findings can be adhered to, if the companies operate in a competitive environment. This is the case in most industries, except for network utilities, which are characterised by natural monopolies, and markets subject to other regulatory limitations (e.g., government-controlled monopolies). From a social and political point of view the complete private ownership of companies providing services of general interest (energy and water supply, public transport, mail services, hospitals) is seen more critically (FORBA, 2009). Public interest in a nationwide provision of basic public services is particularly strong, so that in this case the option of a complete withdrawal of the government is ruled out due to insufficient public support. In the field of services of general interest it may be a politically and economically ap-

Privatisation and liberalisation in Austria

Full versus partial privatisation

peeling alternative for the government to reduce its engagement to the role of a strategic shareholder ("core shareholder").

Successful partial privatisations can also contribute to a general increase in the approval of privatisations among policy makers and the general public and may serve as a first step towards a (gradual) privatisation of the whole company.

Corporate headquarters comprise the key functions of a company (executive management, research, development and design, human resources, marketing and distribution, finance and controlling). This is where essential strategic and operational decisions are taken.

However, headquarters do not only play an important role for the company itself, but also for the economic development of an industrial location. Positive "location effects" of headquarters may result particularly in terms of employment, innovation, research, technology, but also for financial and capital markets. It is therefore in any country's economic and political interest to promote the establishment and retention of corporate headquarters (Sieber, 2008, Knoll, 2004, Hahn – Palme – Pfaffermayr, 1999).

As empirical studies show corporate headquarters are, in most cases, located in the country of the dominating strategic shareholder (Hahn – Palme – Pfaffermayr, 1999). Corporate policies and cultures of multinationals are decisively influenced by the national environment at the location of their headquarters, their employment and investment policies are guided primarily by national objectives (Doremus et al., 1998). The existence of strategic investors ("core shareholders") with local ties (i.e., domestic investors) can thus be assumed to be a crucial factor for the establishment and retention of corporate headquarters. In this respect, strategic ownership is "of high macroeconomic value", its existence is crucial for location policy (Nowotny, 2002)⁵.

According to the "large investors approach" the strategic shareholder can help to mitigate the principal-agent problem in shareholders' supervision and control of the executive management (Hahn – Palme – Pfaffermayr, 1999). By assuming the supervision and control function, the core shareholder saves the other (small) shareholders those expenses, which would arise from overcoming the information advantage of management over shareholders and the resulting necessity to control the management⁶.

A large-scale investor is not per se a strategic shareholder. Apart from the long-term increase of the company value the idealised core shareholder does not have any entrepreneurial interests of his own, which he would pursue with the help of the investment, but is attached to the company "in good times and in bad" and proactively supports the management in difficult phases, while withstanding attractive acquisition offers. This crucially distinguishes him from the "typical" financial investor who focuses on short-term yields. Private core shareholders in this strict sense are rare. Investment funds, pension funds, banks and insurance companies do not usually fulfil this condition. Most likely private foundations and shareholding families might do so. As the remaining agent the government could aim at a strategic core investment from its macroeconomic perspective. However, this entails the potential risk of political influencing (Nowotny, 2002).

To influence strategic corporate decisions a core shareholder does not need to hold all shares or even a majority of shares (50 percent + 1 share). The blocking minority (25 percent + 1 share) defined in corporate law is sufficient to obstruct vital decisions that require more than three quarters of the authorised capital.

Economic aspects of strategic ownership

Corporate headquarters as an industrial location factor

Strategic ownership favours corporate headquarters

On the role of the strategic shareholder

Corporate law aspects of strategic ownership

⁵ Quotation translated from German: "volkswirtschaftlich wertvoll".

⁶ This requires that the interests of the strategic shareholder and the small shareholders coincide and that the core shareholder does not pursue any objectives besides the long-term increase of the company value. Otherwise, an additional principal-agent problem will emerge for the small shareholders vis-à-vis the core shareholder.

"Negative minority rights" result from the requirement of a three quarters majority. In this respect the following examples from the Austrian Stock Corporations Act ("Aktiengesetz")⁷ can be quoted: dismissal of a member of the supervisory board (section 87), changes in the articles of association (section 146), measures to raise capital (sections 149, 153, 160, 169, 174, 175) as well as the dissolution of the corporation (section 203), its continuation (section 215) and its conversion (section 239). Furthermore, in practice the articles of association often grant strategic shareholders the right to appoint members to the supervisory committee (section 88). Via these supervisory board members a decisive influence can be exerted on the appointment and dismissal of members of the executive board (section 75) and thus on the company's strategy.

To be able in principle to exert a strategic influence on a company, an investor thus does not need more than 25 percent (+ 1 share) of the stock. As long as the strategic investor remains below the majority stake under company law (50 percent + 1 share), additional investments beyond the blocking minority (25 percent + 1 share) do not significantly improve the investor's legal position in the company. Of course, the investor's actual weight increases.

As described above the negative minority rights indeed result in extensive opportunities for strategic investors with a blocking minority ("core shareholders") to exert a strategic influence. Compared to a majority shareholder, however, a core shareholder faces clear limitations.

As long as the purpose of the company (as defined in the articles of association) is not changed or the headquarters relocated, a core shareholder cannot prevent

- the offshoring of parts of the company,
- the closure of domestic production sites,
- the establishment of new production sites abroad.

Admittedly, such decisions on business locations are eventually taken by market forces and a domestic core shareholder would offer protection only in theory. Not even a majority shareholder can escape these market forces without jeopardising the company's existence.

However, in the reality of partly privatised state-owned companies one core shareholder is often confronted with a large number of small shareholders. In this case the negative minority rights are sufficient to protect the public interest. Thus, an effective control over a company is possible even without remaining a majority shareholder (Grünwald, 2002).

For the permanent safeguarding of private industrial companies, the instrument of private foundations is often used in Austrian practice. Generally, it is not only suitable for "dynasties of entrepreneurs", but also for other stakeholders (employees in particular), who take a strategic interest in the continued existence and development of a company. In this respect, the voestalpine Arbeitnehmer Privatstiftung, which manages the employees' shares, is a particularly interesting arrangement. It defines itself as the active contribution of the group's employees to the safeguarding of the corporation's long-term development by way of strategic investment. Its objectives are the "defence against an unwanted shareholder structure" and ensuring "stability for future development by establishing a stable shareholder structure" (Stelzer, 2010)⁸. As a stable core shareholder it supports the long-term, sustainable development of the group. In addition it impedes any hostile take-over, as it can use its stake of more than 10 percent to prevent a potential squeeze-out. The foundation, which combines the shares and thus the votes of the employees, has two important par-

Limits to core shareholders' influence

Foundations as strategic shareholders

⁷ As the responsibilities of the shareholders' general assembly reach much farther in a limited liability company (GmbH) than in a joint stock company, the blocking minority is even more important in a limited liability company.

⁸ Quotations translated from German: "Abwehr einer unerwünschten Eigentümerstruktur" and "Stabilität für zukünftige Entwicklung durch den Aufbau stabiler Aktionärsstrukturen".

participation possibilities: via one seat in the general assembly and another one on the supervisory board (as representative of the shareholders⁹ of voestalpine AG).

Currently, about half of the total workforce of all 49 corporations of the voestalpine group in Austria hold shares (20,500 of 40,000 employees worldwide). For these employees a combined 21.2 million shares are managed by the foundation. This corresponds to a stake of 12.6 percent. In addition the foundation holds 0.1 million shares of overseas employees and 1.5 million private shares (0.9 percent) of employees. Thus, voestalpine Arbeitnehmer Privatstiftung represents 13.3 percent of the votes in voestalpine AG and is thus the second largest shareholder of voestalpine AG after Raiffeisen-Landesbank Oberösterreich (15 percent). It also represents the largest employee share ownership in Austria both in terms of voting shares and in terms of stock value.

voestalpine Arbeitnehmer Privatstiftung is considered a "model for success" both by the executive management and by the workers and their representatives, as it reached the objective of "strategic ownership in the hands of all employees" (Stelzer, 2010)¹⁰. At the European level this model of pooling voting shares in the case of individual share ownership as it is practised in voestalpine AG is considered exemplary and worth copying (Kattinger, 2011). In this respect, employee share ownership in the form of foundations might also reduce the reservations against potential privatisations in (still) state-owned companies, because strategic private ownership exercised by the workforce might replace or supplement the government's stake.

Although most studies endorse complete private ownership, "mixed" private and public ownership, which combines the advantages of both forms of ownership and overcomes their disadvantages, may also be expedient (Schmitz, 2000). A partial privatisation of state-owned companies may combine "the best of both worlds" and be an attractive real-world option for several reasons.

The reduction of the government's engagement in a company to the blocking minority is a special form of partial privatisation. Although the majority stake in the company is transferred to private investors, essential strategic decisions cannot be made without the approval of the minority shareholder. Therefore the blocking minority is sufficient to serve the public interest. For this reason, a government stake that exceeds the blocking minority requires a justification beyond the "public interest".

The next step is to clarify in which companies the government can reasonably claim a public interest. For this purpose it is useful to distinguish between two types of companies (Grünwald, 2002):

- For companies that provide services of general interest (energy and water supply, public transport, mail services, etc.) the public interest can be justified on grounds of security of supply.
- The second, much larger, group comprises all other companies, which may be of interest in terms of industrial location policy, but whose products or services do not have the same extraordinary importance for the survival of the community as those of utility companies¹¹.

Based on this distinction no public interest can be assumed for the second group of companies. This is why a government engagement in these companies as a core shareholder does not appear to be justified. For these companies private investors may be preferable in terms of industrial location policy. However, compared to pub-

⁹ This seat on the supervisory board is independent of the worker representation on the supervisory boards of joint stock companies, which is regulated in the legislation on labour relations: for every two supervisory board members stipulated by the Joint Stock Company Act or the articles of association, the (central) works council delegates one worker representative to the supervisory board (Labour Relations Act, ArbVG, section 110). Details are defined by the government ordinance on the delegation of worker representatives to the supervisory board (AufsichtsratsVO).

¹⁰ Quotation translated from German: "strategisches Eigentum in der Hand aller Beschäftigten".

¹¹ There is a particularly strong public interest in natural monopolies (network infrastructures), which exist in public utilities (for details see above).

Strategic public ownership

lic core shareholders they are lacking guaranteed stability, as private capital depends on market uncertainties and rarely shows the same long-term commitment as public capital. However, a "fossilisation" of the ownership structure is not necessary in these companies and may even be counterproductive.

A stable ownership structure with a long-term government involvement as a strategic shareholder can only be justified for companies providing services of general interest.

As the international empirical evidence shows, companies – with the exception of some public services (services of general interest) – can in most cases be managed more efficiently with private sector involvement than under the exclusive influence of the government. Therefore, they are in principle open to privatisation. In line with these findings the privatisations of the three large government stakes in Austrian industrial companies (Böhler-Uddeholm AG, OMV AG and voestalpine AG) can be judged favourably from a macroeconomic perspective.

The existence of competitive markets is an important prerequisite for the successful privatisation of state-owned companies. It is a major government task to ensure well-functioning market competition or establish it by means of the respective regulation.

There is a strong interest in the secure and affordable supply of the population with services of general interest (energy, water supply, public transport, mail services, etc.), which justifies a permanent strategic investment of the government in these companies as a core shareholder with a blocking minority (25 percent + 1 share). Neither from a company law perspective nor on economic grounds is there any need for larger government stakes in companies. From an economic point of view all state-owned companies that operate in competitive markets and for which no such particular public interest exists, could, in principle, be fully privatised.

Eventually the concrete scope of privatisation depends on the objectives the government defines in advance. The scale between "complete private ownership" and "complete state-ownership" is continuous and leaves a range of options. In addition, alternative instruments (such as the design of the articles of association) may be used to serve the public interest.

Conclusion

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The Privatisation of Public Assets as an Economic Policy Instrument: Private versus Public Ownership of Companies – Empirical Evidence and Considerations for Industrial Location Policy. Summary

With a few exceptions pinpointed in the public services field where it has not been possible to set up an effective competition regime, international empirical evidence demonstrates that enterprises which have attracted investors from the private economy can (at the least) be run more efficiently than when operating under the sole influence of the state and are therefore basically open to privatisation. Reflecting this finding, an evaluation of the privatisation of the three major state-held stakes in Austrian industries (Böhler-Uddeholm AG, OMV AG and voestalpine AG) arrives at a positive result from an overall economic point of view.

A key prerequisite for any privatisation to be successful in an overall economic context is the existence of competitive markets. The state has the paramount task to ensure market competition, if necessary by suitable regulation accompanied by pro-active competition policy.

It is very much in the public interest to ensure that enterprises providing public services (electricity, water, public transport, postal services, etc.) will deliver reliable and low-cost services to the public: this public interest may justify that the state acts as a core shareholder holding a permanent strategic blocking stake (25 percent + 1 share) in such enterprises. Any greater stake is not necessary to protect the public interest, neither from a legal nor from an economic point of view.

All other state enterprises which operate in competitive markets and which are not characterised by such a specific public interest could, at least from an economic perspective and generally speaking, be fully privatised.

Ultimately, the specific degree of privatisation will depend on the objectives identified ex ante by politicians. When we look at the property scale as a continuum ranging from fully state-owned to 100 percent privately owned, there are various options available. In addition, there are alternative tools (e.g., customised charters) which may be used to safeguard the public interest.

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