Abstract

This paper, based on a large sample of mid-sized firms in the Czech Republic, Hungary and Poland, compares the performance of privatized and state firms in the environment of the postcommunist transition. It provides strong evidence that private ownership, except for worker ownership, dramatically improves corporate performance. We find no evidence of any "privatization shock" which was supposed to afflict the behavior of the firms undergoing rapid ownership changes; we observe instead a severe shock of marketization, which affects both state and privatized firms, but to which private ownership provides a powerful antidote. We also find that the impact of private ownership is the strongest in enhancing a firm's ability to generate revenues -- an area in which entrepreneurship seems to be required. Ownership also affects a firm's ability to remove the rather obvious cost inefficiencies inherited from the past, but this effect is less pronounced, with both state and privatized firms engaging in significant amounts of cost restructuring. Most importantly, we find that privatized firms generate significant employment gains relative to state firms. Since it is its superior revenue-generating capability -- rather than cost-cutting competence -- that allows a firm to sustain or expand employment, privatization turns out to be the dominant employment strategy in transition. We also discuss the performance differences among various private owners, and several of our findings in this area run contrary to widely held beliefs concerning the effects of managerial ownership and the role of privatization funds and foreign investors.

JEL Classification: *P10, P12, P17. Keywords:* ownership; privatization; performance; transition.