WHY OWNERSHIP MATTERS?

Entrepreneurship and the Restructuring of Enterprises in Central Europe[1]

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January 2000

Abstract

This paper, based on a study of mid-sized firms in the Czech Republic, Hungary, and Poland, seeks to explain the reasons behind the marked impact of ownership on firm performance which has been observed in a number of studies in Eastern Europe and other parts of the world. Focusing in particular on the differential impact of ownership on revenue and cost performance, the paper argues that privatized firms controlled by outside investors are more entrepreneurial than those controlled by corporate insiders or the state. The paper provides evidence that all state and privatized firms in transition economies engage in similar types of restructuring, but that product restructuring by firms owned by outsider investors is significantly more effective (in terms of revenue generation) than that by firms with other types of ownership. The paper also examines the impact of managerial turnover on revenue performance, as well as differences among managers of firms with different types of ownership, and concludes that the more entrepreneurial behavior of outsider-owned firms is due primarily to incentive effects, rather than human capital effects, of privatization. More specifically, the authors argue that the success of outsider-owned firms is due to their greater readiness to accept risks (as evidenced by the higher variance of the revenues generated by restructuring) and a lesser need to defend, and account for, their managerial decisions.

JEL Classification: P10, P12, P17.
Keywords: ownership; privatization; politicization; entrepreneurship; incentives; human capital.

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[1] This paper is part of a larger study undertaken jointly by the Privatization Project and the World Bank. Cheryl Gray has participated in the design of the study and contributed ideas at all stages of the research project. The authors would like to thank Joel Turkewitz for his contributions to the design and implementation of the survey instrument, and Mihaela Popescu for her extraordinary assistance in the analysis of the data. Andrei Shleifer provided insightful comments on an earlier draft of this paper and his suggestions led us to substantial revisions. Helpful conversations with Joel Hellman, Sam Peltzman, Edmund Phelps and Christoph Ruehl are also gratefully acknowledged.

The authors are grateful to the CEU Foundation, the Open Society Institute, and the World Bank for supporting research on this paper. CV Starr Center for Applied Economics at New York University has provided additional support for Roman Frydman's research. None of these institutions are responsible for the opinions expressed in this paper.

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