

The Role of Privatization as a Moderator of the Impact of Non-Institutional Factors on the Performance of the Enterprises in Central and Eastern Europe

Authors : Margerita Topalli

Abstract : In this paper, we analyze the impact of corruption (business environment, informal payments and state capture), crime and tax time, on the enterprise's performance during economic transition in the Central and Eastern Europe and the role of privatization as a moderator. We examine this effect by comparing the performance of the privatized enterprises and the state-owned-enterprises, while controlling for various forms of selection bias. The present study is based on firm-level panel data collected by the BEEPS for 27 transition countries over 2002, 2005, 2007, and 2011. In addition to firm characteristics, BEEPS collects valuable survey information on different forms of corruption, crime, tax time and firm ownership. We estimate the impact of corruption, crime, tax time on the different performance measures (sales, productivity, employment, labor costs and material costs) of the enterprise, whereby we control for firm ownership, with a special focus on the role of the privatization as a moderator. It argues that in general terms, the privatization has positive effects on the performance of enterprises during transition, but these effects are significantly different, depending on the examined performance measure (sales, productivity, employment, labor costs and material costs). When the privatization is effective, the privatized enterprises show a considerable performance improvements, particularly in terms of revenue growth and productivity growth. It also argues that the effects of privatization are different depending on the types of owner (outsider or insider) to whom it gives control. The results show that privatization to insider owners has no significant performance effect.

Keywords : effects of privatization, enterprise performance, state capture, corruption, firm ownership, economic transition, Central and Eastern Europe

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