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PUBLIC ENTERPRISES AND PERFORMANCE OF PRIVATIZED FIRMS IN ALBANIA

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ABSTRACT

Studies where this paper is based are relatively the same methodology followed regarding the selection of samples aiming to study the correlation between the type of ownership (distinguished by type and level of concentration) and other factors and firm performance measure forms different (labor productivity, net profit margin, growth in total factor productivity). For the purposes of this paper we are focused on some of the econometric analysis carried out by being the main target function: behavioral characteristics of different types of owners of privatized companies with massive privatization method.

Keywords: enterprises, performance, privatization, Public sector, Albania

PUBLIC ENTERPRISES, THEIR ROLE AND CHALLENGES IN THE DEVELOPMENT OF THE COUNTRY

The number of state-owned enterprises or as otherwise called the public enterprises (PE) significantly increased since early '30's, but particularly after the Second World War as in developed countries and in developing countries. The aim was to Manifold:

- To overcome the problems arising from market deficits and shortfalls in capital
- Promoting economic growth
- Reduction of mass unemployment and
- Ensuring national control over the overall direction of the economy, especially in developing countries.

Providing capital and technology in strategic areas where the private sector or not enter or lacked the necessary capital to invest (as in heavy industry or infrastructures) most governments hoped that through PEs to boost capital formation, the They produce essential commodities at low cost, to increase the number of jobs and contribute significantly to the development of the country. This trend continued until the early 80's.

But a series of negative phenomena as the rise of corruption, inefficiency in management, staff of enterprises overflowing of inflation and increasing budget deficit, made in the 80’th to display the massive failures of governments and limit the role previously defined for public enterprises as key actors in economic development. Despite these and from a reduction that has become the number and weight of public enterprises through the privatization process (which peaked in developing countries in 1997 and although it remains at a low level overall, again privatized has started its gradual growth), again POE continue to have a presence important in many countries are the biggest providers of a range of social services and generating a significant number of jobs. If you will refer to the figures, it would seem clear that in countries with higher income, the share of enterprises of this type in GDP and investment constitutes respectively 8% and 13%. For middle-income countries these figures are 9% and 17%, while in less developed countries (Least Developed Countries) they are 14% and 28%.

To study the relationship between ownership structure and performance of privatized firms in Albania has undertaken a study in 2003 which is gathering information for 45 firms for a period of 6 years (1997-2002) largely privatized in the MPP. Besides statistical analysis it is also used regression analysis to show the relationship between ownership structure and firm performance. Relying on the reasoning that the ownership structure is endogenous is a technique used 2SLS (Two stage least squares) and in particular a model GMM (Generalized Method of Moments, with kernel based estimation) that produces consistent results and efficient and takes into account problems the heteroskedasticity and autocorrelation that often accompany panel data. Using OLS (ordinary least squares) in the presence of an endogenous variable biased results. The following model is assessed with standard techniques (EC2SLS Random Effect) 20 panels used to date in order to compare the results.

In both of equations and to show the firm in year t, and j indicates the j th variable exogenous to the model. PERFit is the firm performance is measured by two alternative indicators: labor productivity and net profit (the ratio of net profit to sales). OWNCONit shows the concentration of ownership and shares measured at the largest owner (LC1). Domi are two dummy variables that indicate the type of dominant owner (two in our case, the "individuals" and "domestic firms"). While Xjit includes all other variables such as firm size, capital intensity, etc. sector. In turn to see which were the main characteristics of firms that determine the type of dominant owner is estimated probit model, which more specifically shows the likelihood that firms attract or find a specific type of dominant owner. The data used for this study are those mentioned above where domestic firms and individuals outside the company were prevalent in 62% of firms in 2002. Other firms have the state, managers, and workers or have no dominant owner. Panel data probit model is used to estimate the model below.

$$Prob\mathrm{INDFIRMS}_{it} = \alpha_i + \mathrm{OWNCON97}_i + \beta_1 \mathrm{PERFit} + \sum \beta_j X_{ijt} + \varepsilon_{it}$$

ProbINDFIRMSit shows the probability that the "individuals" or "firms" will be the dominant owner of the firm in year t. Stock OWNCON97 is the largest owner of the firm at the beginning of the period that we analyze (1997).

PERFit is the performance of the firm in year t, while Xjit are all other variables such as firm size, capital intensity, sector, etc. methods of privatization. Results. Before giving the results of the empirical estimation of the models mentioned above it is important to note that the ownership structure of privatized enterprises has changed much in the years after privatization. This happened in both dimensions, in terms of concentration and type of owner. Starting with the concentration of ownership of data reveal that the average percentage of shares owned by the largest owner has increased from 37% in 1997 to 50% in 2002. The table below shows the changes of types of dominant during the 1997-2002 periods.

Ownership transformation matrix: the number of firms that have changed the type of dominant owner, 1997-2002

Lloji i pronarit mbizotërues*	Nr. i kompanive sipas llojit te pronarit mbizotërues në 1997	Nr. i kompanive sipas llojit te pronarit mbizotërues në 2002					
		A	B	C	D	E	F
Shtetrore (A)	8	4	1	1	2	-	-
Kompani të tjera (B)	11	1	10	-	-	-	-
Nga punonjësit (C)	3	-	-	3	-	-	-
Individët (D)	8	-	-	-	7	1	-
Manaxherët (E)	4	-	-	-	-	3	1
Pa pronar dominues (F)	11	-	4	-	4	-	3
Gjithsej	45	5	15	4	13	4	4

* The dominant owner the largest shareholder of the company that owns at least 20% of the shares.

The table shows that domestic firms have increased their dominance in privatized firms during the study period. In 2002, domestic firms are the dominant owner in 15 firms. The data reveal that in five of them domestic firms to own more than 50% of the shares, while in 10 others they hold 20-50% stake. It is to be "emphasizing that the participation of foreign firms in the privatization of small and medium enterprises in Albania until 1996 was too small. The table below shows the empirical results of the model (1) estimated by three techniques, labor productivity is the dependent variable and then when net profit. Results show that LC1 is not important and is not a factor that affects the performance of the firm. These findings are similar to those issued by Demsetz and Lehn (1985) and Demsetz and Villalonga (2001), emphasize that there is no relationship between ownership concentration and firm performance.

In transition countries, where corporate governance mechanisms are weak, ownership concentration is seen as the main mechanism to control them. Studies of these countries have stressed the importance of performance type of dominant firms (Mygind, 1997, Frydman et al., 1997, 1999; Djankov, 1999; Djankov and Murrell, 2000; Megginson and Netters, 2001; Hanousek et al., 2004, etc.). Different types of owners have different incentives and objectives and the most important is that they have different financial abilities. This was particularly the case in Albania, where access was limited financial resources not only at the beginning of the transition period, but even years after the enterprises were privatized. Privatized firms "insiders" and those who had a diffuse ownership were characterized mainly by the lack of savings and limited access to formal financial market. To see if there is any difference in the performance of companies that have different dominant owners, the model included two dummy variables mentioned above.

Factors that determine the concentration of ownership by "outsiders" (individuals or domestic firms)

Independent Variables	(1)	(2)	(3)	(4)
LC1 ne 1997	0.653 * (1.69)		0.573 * (1.69)	
LC3 ne 1997		0.482 ** (2.23)		0.311* (1.60)
Ln	-0.932 *** (-3.03)	-1.069 *** (-3.32)		
Report net profit / sales			-0.085 ** (-2.11)	-0.078 ** (-2.03)

Ln Asset fixes	-0.373 (-0.84)	-0.446 (-1.03)	-0.410 (-0.94)	-0.435 (-1.01)
Ln ratio fixed assets / working	1.033 *** (2.84)	1.037 *** (2.86)	0.515 (1.51)	0.523 (1.56)
Ln ratio fixed assets / working-squared	-0.108 (-1.25)	-0.104 (-1.19)	0.001 (0.00)	-0.010 (-0.11)
Sector manufactures	1.242 (1.16)	0.990 (0.99)	1.357 (1.27)	1.106 (1.09)
The standard deviation of profit	0.063 (0.86)	0.071 (0.93)	0.083 (1.07)	0.075 (0.99)
Years of privatization	0.382 (0.76)	0.009 (0.02)	0.447 (0.91)	0.111 (0.30)
The method of privatization	-1.093 (-0.88)	-0.837 (-0.67)	-0.849 (-0.65)	-1.014 (-0.78)
Ind. conflicts of Korp.	-2.764 * (-1.62)	-2.925 * (-1.73)	-3.501 ** (-1.91)	-3.764 ** (-2.10)
constant	0.563 (0.15)	2.473 (0.73)	1.565 (0.40)	3.725 (1.11)
log likelihood	-61.81	-61.20	-64.35	-65.04
LR CHI2 (10)	22.65 ***	29.57 ***	23.27 ***	21.89 ***
Nr. the observations	237	237	237	237

Notes: t test in parentheses; * Significant at 10%; ** Significant at 5%; *** Significant at 1%.

Results for the two types of predominant owners show that when used best econometric methods (both techniques GMM) does not exist any connection between them and labor productivity. However it seems that firms have "individuals" as the dominant owner, are more profitable than other types of firms where the owners are predominant. In EC2SLS model, the two coefficients for "individuals" and "domestic firms" are negative and significant. These conflicting results between GMM and EC2SLS methods are as a result of the shortcomings that EC2SLS methods compared with GMM method.

In general, there is not any significant difference in the performance of firms that are owned by different types of owners. Also, it is important to say that the performance of firms that we studied there was no significant change in the years after privatization. One other variable interest explained, it is the corporate conflict index (CCI index), which indicates the presence or not of a situation of conflict in the firm. Results show that CCI adversely affect the performance of privatized firms show that a conflictual environment is problematic for their performance. Other variables are important, such as firm size, capital intensity index, managerial independence, etc., but their explanation is not the subject of this study. The estimation results of the model (2) are given in the table below. In order to investigate if there was any influence initial concentration of ownership in the likelihood that "individuals" and "firms" become dominant in a firm, we use the level of concentration of ownership in 1997 (LC1 and LC3). Coefficients of both variables are positive and significant in all regressions of the table. The results show that the coefficients of the two variables used to measure firm performance are negative and significant in all regressions. This shows that the probability that "individuals" and "firms" will become the dominant owner is higher for firms with poor performance. These results can be explained by the possibility that these types of owners try to exert more control on managerial and then enjoy the benefits of control. Jones and Mygind (1999) states that firms with high capital intensity are more likely to be dominated by "outsiders" taking into account their financial ability compared to "insiders". In our case the coefficient of ratio (fixed assets / number of employees) is positive and statistically significant. It seems clear that corporate conflict index (CCI index) is negative and statistically significant. This shows that if there is a conflict firm it is less possible that "individuals" and "firms" will buy more shares and become the dominant owner in these firms.

Potential tools for improving the management of public enterprises
Contracting

In certain circumstances, governments want to keep state-owned enterprises, but in other situations may contract for some construction services or infrastructure operation and management of some or all of the functions of public enterprises. Contracting for infrastructure and public services allows enterprises to agree to private companies to provide services or facilities that meet government specifications. In general, public enterprises, public bodies contract by three types of contracts: service management and rental contracts.
Services contracts allow public companies to buy services for long-term private sector public enterprises use outsourcing to:
Modernized projects
-to modernize government buildings,
- To acquire defense equipment
- To spread schools, hospitals and prisons.
In many countries the contraction has become one of the most important methods of privatization of water supply services and waste management. In South America, public utility in Chile and Guatemala territorial concessions offered in major cities for private firms to provide, distribute and loading the water supply to the population. In both these countries, tariffs were approved by the government which also monitors the water quality. In Peru, public services contracted private companies for many services including water supply, computer services, electrical, etc.

Contracts management: Public enterprises also use management contracts with private companies to provide services or produce goods more efficiently. They have contracted with international firms to privatize state hotels in Africa and Asia, agro-industry in Senegal, Ivory Coast and Cameroon, as well as mining in Latin America and Africa. Management contracts allow a private company to take over responsibility of operation and maintenance of public services for a certain period of time and let him free to make management decisions.

Abu Dhabi Persian state brought commercial discipline and effective management in their public services by contracting private sector to manage the power supply. It tenderloin term contracts management competition with a private firm while it enjoyed an advantage in this partnership. Some francophone African countries began in 1980 to use "afterimage system" whereby most municipal services a private contractor to operate and maintain the project's public water supply. The government decided strict rules for setting prices for water supply to the private company paid for municipal project to mitigate the costs of building the water system.

Rental contracts are also widely used for public and commercial operations. Global experience is rich with collaborations / private governmental actions fruitful cooperation can mention some of them: And in Latin America and Africa state industries have been leased to private companies for long-term operations. Government rents electric and water supply enterprises in the Ivory Coast; refineries and mills in Togo; and hotels and farms in Jamaica. Companies who rent enterprises or parts of public enterprises have responsibility for operations, maintenance and replacement of capital assets not fixed. State Railway Authority of Thailand (SRT) successfully experimented during the 1980s and 1990s to contract with private companies to provide services in three City Street that until that period resulted in the loss. Private companies were renting passenger carriages and railway lines from SRT and paid it a fee every 15 days. Private contractors covered all costs of the carriages as well as cleaning service. SRT provided the use of the railway stations, the management staff, as well as train drivers and guards.

The three forms of contracting, service, management and lease contracts allow the government to maintain its ownership as public businesses and control of public services, but also to benefit from private sector management and operations and take the income from rents, management fees or service concessions. In appropriate circumstances, contracting with the private sector has increased efficiency, reduced vulnerabilities in the actions of employees and the failure of the contractor, provided protection against monopolistic behavior of contractors or government agencies and has provided the most basic knowledge and better understanding of delivery services.

Public - private partnerships: Another potential means of improving the management of public enterprises is through public-private partnerships (PPP), which are collaborations with corporations, small businesses, non-governmental organizations and civil society organizations to provide goods and social services beneficiaries. Public enterprises and the private sector cooperate in providing services and infrastructure through a variety of mechanisms including:
a- concessions
b- Joint ventures
c- Informal and voluntary cooperation.

Public-private partnerships allows or promotes the business of domestic and foreign, community groups, cooperatives, private voluntary organizations, small businesses and other NGOs to provide social services. In other countries, public-private partnerships are an intermediate stage in the privatization of state enterprises, or an alternative to privatization.
- The concession is the most common and the most obvious / correct the PPP, but not always the most appropriate solution, national government or municipality will choose the concession, in order to ensure the way with lower cost and better quality high performing public services through the creation of public companies, both through governmental agreements, promoting competition at the stage of selecting the private executor service. Joint ventures are a means by which public companies work with the private sector to purchase, merger of state-owned enterprises (keeping a part of the stock in profit or strategic enterprises), or joint ownership between the government and private investors. In Oman, p.sh, the government developed a joint venture between public and private enterprises of Oman and Sealand to spread and maintain the port of Salalah. Also in 2002, the city of Ajmanit in UAE formed a joint venture of this kind, the Waste Water Company of Ajmanit with a consortium of Black & Veatch, Thames Eater and other companies to invest $ 100 million the sewage network that would provide its services to 300,000 people in this country.

The government gave the joint venture a concession of 27 years in which the company would cover its costs by taxing to customers for the service provided.

China has used joint ventures between foreign investors and state enterprises to foreign technology and capital, to learn foreign management and marketing techniques, to enhance and promote joint research and development projects. The Chinese government also has used joint ventures between state-owned enterprises and foreign private companies to make new investments in infrastructure and facilities management. For example, the spread of telecommunications equipment in the Shanghai area, were financed through joint ventures. Shanghai Bell Telephone Equipment Manufacturing Company and taken to a joint venture between the Chinese Ministry of Post and Telecommunications, Alcatel Bell and the Belgian government to produce equipment for phone companies in China. Governments in the world use projects with consortia of private companies to build communications infrastructure, transport, airports, water supply, etc. Governments in developed countries economically use build-operation agreements-transfer (BOT) where those buying or renting facilities fully implemented by private investors as companies offset their investment in these facilities operating for a period of time as agreed.

BOT arrangements or agreements build-operation-ownership (BOO) have been widely used in Malaysia and Turkey to build telecommunications systems, highways and water supply systems and to use the concession granted by the government. The consortium usually borrows from international funding agencies and commercial banks using subsequent income from the projects to repay the loans. Another method is using the BOT agreement to build and use independent power plants in China (Shajiao project) and in Pakistan (Hab River project) as well as the Dominican Republic and Costa Rica. These projects typically include limited funding with which the capital increase based on cash flow rather than collateral under the project owners. Although these offer the governments of developing countries important means of extending services and infrastructure and private sector commercial opportunities to expand their businesses, public-private partnerships are complex arrangements and whether they are drafted and administered properly, can create big problems for the public and private sectors. They often replace civil servants, thus bring political opposition among public officials, unions and associations of civil servants.

If public-private partnerships are not well designed and supervised their services, they may be more expensive than those provided by the government. Poorly conceived projects and analyzed improperly failed both in rich countries and poor ones. Corruption can erode public confidence in public-private partnerships, if the contracting process is not transparent and carefully monitored. Lack of sufficient competition can make public partnerships private monopolies that operate with more efficiency, not more than state-owned enterprises. If government regulations are too restrictive can lead to deficiency of service provision and whether they are too lax cannot make more responsible private service providers. Contract management cost can be significant. In all cases, governments must carefully compare the costs of contracting with insurance costs directly to services. Private sector involvement in the provision of services can increase their price and decide weaker segments of the population at a significant disadvantage.

The public sector is importing private initiatives, knowledge, skills and experience, but at the same time being maintain accountability, democratic control, policy-making and the protection of public interests. Public-private partnership can offer innovative and competitive solutions for the same amount of money involved, the risk is allocated to one partner who best manages and mitigates or reduces it, while at the same time processes are open, fair and transparent .

Privatization: Liberalization, privatization, deregulation and decentralization are at the present time some of the concepts we'll call "fashionable" when discussing public sector reforms. There is a random coincidence that liberalization is in charge of goals within the EU, being developed so as an institutional framework of free trade and open competition. Even where competition in the public operations is not possible, the government stimulates through public tendering and contracting concessions. On the other hand, the state (or municipality and beyond municipalities) should guarantee basic regulatory framework to avoid arbitrariness and unfair operations of organizations that stand in the gray area between the public and private sector. Besides the known theoretical dimensions, experts identify two tendencies in public sector reforms in OECD countries:

 the reform based on privatization (objective basis for a market economy)
 Reform based in de / regulation

But both types are intended to regulate the legal framework and public sector activities with today's social environment to enable the merger (to enable cooperation) of private and public sector. Governments in developing countries have concluded that public enterprises cannot be reformed or restructured in full to be able to perform their functions efficiently and have decided to liquidate, or to privatize them. Governments in some countries see privatization as a way:

- Redistribution of costs in state-owned enterprises,
- For more profitable investments in infrastructure and social programs;
- To increase the size and dynamism of the private sector;
- distributed to state enterprises beyond and to promote private investment and foreign national.
- Privatization could bring needed revenue to create new jobs for workers replaced by industrial restructuring,
- To reduce the state administrative responsibilities and obligations of government intervention in the management of enterprises
- To provide goods and services to customers efficiently.

CONCLUSION

Theoretically, a change in the ownership of public enterprises leads to organizational restructuring and changes in behavior that allow state enterprises to operate under concurrent asects and collect revenue. In appropriate circumstances, the transfer of ownership in the private sector will change the organizational characteristics, so that state enterprises begin to operate in ways that allow them to undertake missions clear and accurate, to be more innovative, to manage human resources efficiently and increase productivity through greater efforts at work. Improvements in organizational performance can lead to improvements in financial management, best production of goods and services, more efficient distribution services and creating more employment opportunities.

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