GOVERNMENT AS A SHAREHOLDER IN LISTED COMPANIES: CONSEQUENCES ON PERFORMANCE, GOVERNANCE AND REPARTITION OF POWER BETWEEN STAKEHOLDERS

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Céline du Boys

Chercheur associé CERGAM - IMPGT - Université Aix Marseille III – Paul Cézanne

Clos Guiot - Puyricard 13089 Aix-en-Provence Cedex 2

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L'Etat Actionnaire : Performance, gouvernance et répartition du pouvoir entre stakeholders dans les sociétés cotées détenues par l'Etat

Résumé:

Cet article étudie les conséquences de l'actionnariat de l'Etat sur la performance, la structure de gouvernance et les objectifs des entreprises cotées. A travers une étude empirique, cette recherche compare les entreprises détenues partiellement par l'Etat français à des entreprises privées de même taille et secteur. L'article se concentre sur quatre dimensions : la performance financière, les politiques financières, la structure de gouvernance et la répartition du pouvoir entre trois des principales parties prenantes de l'entreprise : les actionnaires, les dirigeants et les salariés. Les résultats ne montrent aucune différence entre entreprises publiques et privées dans la performance et les politiques financières menées. En revanche, les structures de gouvernance et la répartition du pouvoir entre parties prenantes diffèrent. Dans les entreprises cotées publiques, les employées détiennent plus de pouvoir et récupèrent une plus large part du profit. Pour autant, cette répartition spécifique ne vient pas au détriment de la valeur actionnariale puisque les politiques de dividende et la performance de l'action ne différent pas de celles des entreprises privées.

Mots-clés

Etat Actionnaire, Gouvernance, Performance, Répartition Valeur

Government as a shareholder in listed companies: Consequences on performance, governance and repartition of power between stakeholders

Abstract

This paper studies the consequences of having a government in the shareholding of a company, in term of performance, governance structure and firms objectives. In an empirical part, it compares listed firms owned by the French government to comparable private companies. It focuses on four dimensions: financial performance, financial policies, corporate governance and the repartition of power between three main stakeholders of the firm: shareholders, top managers and employees. Results show that performance and financial policies of public firms are close to private companies ones. However, the government induces a different governance structure and repartition of power and wealth between managers and employees. Thus, employees appear to capture a larger part of profit and power to the detriment of top managers. They are better paid and participate more to the decision process than in equivalent private firms. However, shareholders do not seem to suffer from this different sharing out. The French government treats himself as any private shareholder who seeks profit: dividend policy and stock price performance do not differ from a private company.

Key-words

Government as a shareholder,, Governance, Performance, Repartition of Value

INTRODUCTION

For the last ten years, financial researchers have questioned the performance of public firms and studied the effects of privatization. In majority, they conclude to the better performance of private companies and to the benefits of privatization. These results follow New Public Management‘s thoughts about the necessity of competition in the public sector. Theory focuses on the need for competition, but do not offer sufficient reflections on the consequences of government being a shareholder, when firms are in a competitive environment.

This paper aims at participating to this reflection and at understanding the consequences, in a competitive environment, of having a government in the company’s ownership.
Do governments seek to increase shareholder value as any private shareholder? Does the presence of a government induce different financial policies or governance structures? Do governments lead to a different sharing out of value and power in the company?

To answer these issues, this paper studies the specificities of listed firms with a government as the major shareholder. We focus on four dimensions: financial performance, financial policies, corporate governance and the repartition of power and value between three main stakeholders: shareholders, top managers and employees.

This paper is organized in 3 sections, as follow:
The first section (1.) gives a general survey of the literature on the subject and exposes the problematic of this paper. The following parts present the empirical study conducted to answer the paper issues. The methodology is first introduced (2.). In the last section, we present and discuss the results obtained (3.).

1. CONSEQUENCES OF GOVERNMENT OWNERSHIP: A REVIEW OF LITERATURE

Consequences of having a government as a shareholder are various. According to the literature, it can impact performance, efficiency and governance. But analyzing the effects of governmental shareholding in listed companies also questions the specific influence a State can have on the firm objectives and the way stakeholders are taken into account.
Researches on the performance of public firms are numerous. We first review the literature on the financial consequences of privatization. We also take a look at researches on the influences of government partial shareholding.

In a second part, we discuss the potential influence of government in the choice of firm's objectives and its consequence on governance structure. Financial theory argues in favor of shareholder value as the main and sometimes only goal a company must have. But the focus on shareholders to the detriment of others stakeholders might go against the general interest defended by the public sector.

Relative performance of private and public firms

Arguments in favor of the private sector's greater efficiency mostly come from the neoclassical framework (Alexandre and Charreaux (2004)).

Both agency and public choice theorists argue that private ownership is superior to state ownership. Agency theorists focus on the different agency problems available under each form of ownership. In private firms, agency conflicts are reduced through external mechanisms, such as markets for managers, capital, and corporate control, but also internal mechanisms, such as managerial participation in ownership, reward systems, and the board of directors. In state-owned firms, these mechanisms are virtually absent. Thus, the agency rationale for privatization is that it induces changes in corporate governance and managerial incentives, which, in turn, lead to improved performance (Cuervo and Villalonga (2000)).

Beyond agency theory arguments, there are other points going against public ownership efficiency. Krueger (1990) suggests that government firms may be pressured to hire politically connected people rather than those best qualified to perform desired tasks. For Shleifer (1998), private ownership is a source of incentives to innovate. He argues that "private ownership should generally be preferred to public ownership when the incentives to innovate and to contain costs must be strong."

Empirical literature

An important empirical literature has tested the theoretical arguments in favor of private ownership. For the last twenty years, the developments of financial theory and the apparent poor financial performance of nationalized firms have led to a great trend of privatization all over the world. Researches on the benefits of privatization have been numerous and claim for the better performance of private sector toward nationalized firms. However results are still ambiguous.

Dewenter and Malatesta (2001) and La Porta and Lopez-de-Silanes (1999) show that privatized firms have a better performance. Boardman and Vining (1989) conclude that private corporations are significantly more profitable than government firms. After a review of literature on the consequences of privatizations, Megginson, Nash and Van Randenborgh (1994) conclude: "Research now supports the proposition that privately owned firms are more efficient and more profitable than otherwise-comparable state owned firms". In France, these results are strengthened by Albouy and Obeid (2007). Alexandre and Charreaux (2004) also find positive impacts of privatization on the performance of French firms, but the results are not significant.

However, other studies contradict those researches and find no evidence of significant differences in the performance of private and public firms. Caves and Christensen (1980), Martin and Parker (1995), Kole and Mulherin (1997) or Harper (2001) present a body of evidence supporting the view that government firms are intrinsically no less efficient than private firms. In these studies, competition in the product market appears as a more influential determinant of firm efficiency than ownership.

Case of partial government ownership

A firm is considered as public when the government owns the majority of its capital, meaning that ownership is the first criteria to define public firms (Delion (2007)). However there is a difference between firms where the government is the only shareholder and firms where it is the major shareholder but not the only one.

All the above researches compare private firms to entirely public firms. In this paper, we try to understand the effects of partial government ownership. Thus, the distinction between entirely public or private firms is not sufficient.

From the agency point of view, listed companies in which government is a shareholder can be monitored by classical external and internal governance mechanisms. Financial markets, minority shareholders and other internal mechanisms enable to monitor efficiently managers. Moreover, public listed firms usually face another governance mechanism: competition on the product market. This is in accordance with new public management's philosophy that advocates for more market competition in the public sector as it should lead to greater cost efficiency for governments and to a better service. Thus, listed government firms should be

controlled efficiently and should offer a similar performance as private firms, no matter their ownership specificity.

The influence of partial governmental ownership has seldom been tested and theorized.

Chinese case has enabled some empirical studies on this particular point. China's privatization program was initiated in April 1984 but the State continues to hold dominant shares in privatized companies. Tian and Estrin (2008) find a positive influence of state ownership on firm performance at high levels of state ownership in the Chinese institutional context. Qiulin (2008) finds no evidence that a state-owned property company is less efficient than a privately-owned property company. However, he notes that political factors might affect the performance of State owned companies because "of the government preferential treatment in terms of obtaining land at no or lower cost, access to cheaper financing, and taxation".

This review of literature suggests that firms owned partially by a government are, at least, as efficient as private one. Market's competition and monitoring enable an equivalent performance of private and public firms.

Differences in productivity and financial policies of public and private firms

To better understand the sources of public firms' performance, it is interesting to have a look at the productivity of employees and the financial policies implemented in those firms. In particular, the literature studied the influence of public ownership on productivity, capital structure, pay out policy and investment policy.

- ***Employees productivity:*** La Porta and Lopez-de-Silanes (1999) find a significant increase in employees productivity (compared to sales or to assets) after privatization. They also show that government firms use more labor in relation to sales than private firms do and that labor intensity decreases after privatization. Alexandre and Charreaux (2004) also find an improvement in productivity after privatization of French firms.

- ***Capital structure:*** According to Dewenter and Malatesta (2001) : "Two factors militate toward greater use of debt by government firms. In most cases, government firms cannot issue stock, except as part of a privatization. Thus, capital […] must be borrowed. Moreover, government firms may enjoy implicit or explicit loan guarantees enabling them to borrow at favorable rates, or they may borrow from the government itself at favorable rates." The results of their empirical analysis confirm their expectation that government firms are more

leveraged than private firms. Moreover, they show that leverage decreases significantly after privatization. Megginson et al. (1994) find similar results.
In the case of France Telecom (a French listed public firm), Delion (2007) notes that the company was at a time very leveraged because the State did not want to decrease its ownership and favored debt financing of projects.
However, Alexandre and Charreaux (2004) find no differences in capital structure after French privatizations, and Zou and Xiao (2006) find no influence of state ownership on the capital structure of Chinese listed firms.

- ***Investment policy :*** After a review of literature on the consequences of privatizations, Megginson et al. (1994) conclude that privatized firms "increase their capital investment spending." La Porta and Lopez-de-Silanes (1999) shows a significant increase of the ratios of investment on assets or investment on sales after privatization. However, Alexandre and Charreaux (2004) find no differences in investment policy and investment expenditures after French privatizations.

- ***Payout policy:*** Alexandre and Charreaux (2004) find no differences in dividend payout after a privatization. Du Boys (2007) compares payout policies of French listed firms depending on their main shareholder. She finds no significant differences when a firm is owned by a government.

Except for payout policies, there are differences in policies implemented in public and private firms. This could explain a difference in performance as noted by some researches and might be a sign of different firms' objectives.

Should shareholder value be the only objective of firms?

In the theoretical literature in favor of private ownership, there is also a concern that public firms forget shareholder value in order to address "social" goals. According to Shleifer (1998), for public firms, profit maximization is only one of the possible objectives, whereas it is the only one for private firms. Boycko and Shleifer (1996) argue that politicians cause government owned firms to employ excess labor inputs. Dewenter and Malatesta (2001) find strong evidence that labor intensity decreases after privatization and argue that « generally, government-owned firms are thought to forgo maximum profit in the pursuit of social and political objectives, such as wealth redistribution".

According to Delion (2007), government ownership can only be maintain if the state guarantee the same value creation as a private shareholder. But he notes the State also has to pursue its objective of general interest. The State "must be a shareholder that integrates complex visions of expected advantages, and that is not confined to monetary profits."

However, pursuing general interest is not necessarily at the expense of public firms' performance. Nowadays, the idea that shareholder value is the first and main objective of the firm is challenged (Martinet (2008)). The actual crisis, the stakeholder theory and the social responsibility of the firm framework open new ways of reflections. Saulquin and Schier (2007) remind that the study of performance can also be done from a stakeholder point of view, looking at the repartition of profits between all stakeholders of the firm. Hafsi and Youssofzai (2008) and Denis (2008) warn companies to not only focus on shareholder value as it might destroy value, even for shareholders.

Thus, we wonder if listed firms under government ownership pursue different objectives than shareholder value. This would imply different governance structures and repartitions of power and profit between stakeholders. Indeed, firms' objectives are reflected in governance structure : Saulquin and Schier (2007) argue shareholder value maximization principle is reflected in the governance structure of private firms and in the objectives of managers. Charreaux (1997) argue that the difference in the performance of private or public owned companies is linked to their different governance system. Martinet (2008) and Bachet (2008) plead for a modification of governance structures to enable firms objectives to favor stakeholder value. In particular, for Bachet (2008), the presence of employees at the board is a way to better monitor manager and to favor general interest.

If companies with a government shareholder do actually seek stakeholder value, as suggested by Delion (2007), a different governance structure and a better repartition of power between stakeholders should be observed in public firms.

Boujenoui, Bozec and Zeghal (2004) show that governance structure of Canadian public firms has evolved and that boards of directors have become more independent from political power and from managers. In France, Delion (2007) notes that there were important governance problems in public firms in the 1980's : too powerful CEOs, inadequacies of internal control… But, the creation of the French Government Shareholding Agency (APE[1]) and the change in the status of some public firms into listed companies has enabled better governance:

[1] APE = Agence des participations de l'Etat

improved boards' efficiency, State representative directors are better trained to monitoring, implementation of audit committees, better monitoring of State representatives by the APE… On the other hand, the employees' representation on board has been preserved.

In conclusion, this review of literature suggests that differences between private and public companies might come from different sources: performance, financial policies, governance structure and firm's objectives. Moreover, there should also be differences among public firms, depending on the level of State ownership.

Problematic of the paper

This review of literature shows the differences and similarities between public and private firms. It also underlines the lack of knowledge on consequences of partial government ownership. Thus, this paper seeks to go further in the examination of government owned companies, and propose to study not only their financial performance, but also their objectives, through their governance structure and the repartition of power between stakeholders.

What is the performance of firms with a government as the major but not only shareholder? Does the government as a shareholder pursue its mission of general interest? Are there still references to moral and equity in the government monitoring and control of listed firms? Is it at the price of a poorer performance?

To answer these questions, we proceed to an empirical study described below.

2. METHODOLOGY OF THE EMPIRICAL STUDY

2.1. Sample selection and data sources

To constitute our sample, we selected all the listed firms owned by the French government between 2001 and 2007. We have identified 13 firms in which the government is the major shareholder, which means its ownership is over 15% and it owns a majority of voting right[2].

[2] In the case of BULL, the French government is the first shareholder, but it has the same level of control as three others corporate shareholders. For all the other companies, the government is alone as the first shareholder.

To get a better understanding on how the French government acts as a shareholder, we compared those 13 firms to equivalent private listed firms not significantly owned by any government. Two control samples are built. The first one is made up of French, German and British companies from the same industry, with similar turnover and number of employees. However comparing firms belonging to different countries can distort results. So a second sample was built with only French firms. It includes firms from the same industry, but whose turnover and number of employees are, for some of them, slightly less similar.

The use of two control samples limits the bias linked to the comparison of firms from different countries or of different sizes.

For all firms from the control sample, we collected data on the exact same period of time as for the equivalent government owned firm. Table 1 describes our three samples.

Table 1 – Presentation of the samples

Main sample : Public firms				**Control samples : Private firms**	
Government owned companies	**Average government ownership**	**Period of study**	**Industry Classification (ICB)**	**Control sample 1 : French companies**	**Control sample 2 : French, German and British companies**
AIR FRANCE	38,57%	2001 - 2007	5750	ACCOR	BRITISH AIRWAYS (GB)
ALSTOM	21,14%	2005	2750	VALLOUREC	SIEMENS (Germany)
AUTOROUTES PARIS RHIN RHONE	35%	2005	2770	BOLLORE	BOLLORE
AUTOROUTES DU SUD DE LA FRANCE	41,5%	2002 - 2005	2770	N. DENTRESSANGLE	N. DENTRESSANGLE
AEROPORTS DE PARIS	68,39%	2006 - 2007	2770	GEODIS	GEODIS
BULL	16,3%	2001 - 2003	9570	SAGEM	SAGEM
RENAULT	20,93%	2001 - 2007	3350	PEUGEOT	PEUGEOT
GAZ DE FRANCE	80,07%	2005 - 2007	7570	SUEZ	VEOLIA SUEZ
EDF	86,05%	2006 - 2007	7530	VEOLIA	EON (Germany)
FRANCE TELECOM	42,81%	2001- 2007	6530	No control firm	BT (BRITISH TELECOM) (GB)
EADS	15,2%	2001 - 2007	2710	ZODIAC	ZODIAC
SAFRAN	30,7%	2005 - 2007	2710		BAE SYSTEMS (GB)
THALES	34,4%	2001 - 2007	2710		

In the sample one, turnover and number of employees are, for some of them, slightly less similar. In the second sample, turnover and number of employees is similar, but nationality of firms differs.

2.2. Measurement of variables

To determine differences between public and private firms, we focus on four dimensions: financial performance, financial policies, corporate governance and the repartition of power between shareholders, top managers and employees. Table 2 presents the variables and the measures used to study these four dimensions.

For each company, we collected information concerning shareholding and governance from the companies' annual reports. Accounting data and market prices result from the database Datastream - Worldscope.

Table 2 (Part 1) – Definition and measure of variables

DV = Dummy Variable

Financial Performance	
Stock market performance	***Abnormal return of stock price over a year*** RA1 = (Stock price end of year – Stock price beginning of year) / Stock price end of year - (SBF250 index value end of year – SBF250 index value beginning of year) / SBF250 index value end of year
	Tobin's Q QTOBIN = (Capitalization + Debt Value) / Book Value
Accounting performance	***Return on Sales*** ROS = Net income / Sales
	Return on Assets ROA = Net income / Assets
	Return on Equity ROE = Net income / Book value of equity
Productivity	***Sales per employee*** SPE = Sales / Number of employees
	Income per employee IPE = Net income / Number of employees
Financial policies	
Investment policy	***Investment expenditures*** CESA = Investment expenditures / sales CETA = Investment expenditures / assets
Debt & capital structure	***Debt*** DEBT = Total debt / Assets
	Long term debt LTDEBT = LT debt / Assets
Payout policy	***Payout rate*** PAYOUT1 = Dividend / Net income
	Payout yield PAYOUT2 = Dividend / Capitalization

Table 2 (Part 2) – Definition and measure of variables

DV = Dummy Variable

Corporate governance	
Voting rights, Board and Committees	***Dual voting rights*** VOTE => DV = 1 if there are shares with dual voting rights
	Size of board SIZE = Number of directors
	Board independence IND = % of independent directors
	Dissociation of the functions of chairman and CEO DISSCEO => DV = 1 if the functions are dissociated
	Remuneration committee REMUCOM : DV = 1 if there is a remuneration committee
	Nomination committee NOMICOM : DV = 1 if there is a nomination committee
	Audit committee AUDITCOM : DV = 1 if there is an audit committee
Managerial incentives	***Managerial ownership*** MANOW = % of Managerial ownership
	Stock options held by managers STOCKOPT = Number of executive stock-options / Total shares
	Performance related remuneration VARSAL : Part of managerial remuneration indexed on performance
Repartition of power and profit between managers, shareholders and employees	
Managers / Employees	***Relative remuneration of top managers and employees*** MANEMP = Top managers mean remuneration / Employee mean remuneration
	Importance of top managers remuneration MANEMP2 = Top managers mean remuneration / Payroll
Employees	***Growth of employees*** EMPGROWTH = Relative growth of number of employees
	Employees ownership EMPOW = % of Employee ownership
	Directors employee DIREMP : Number of directors who are employees
	Directors representative of employees shareholders DIRAS : Number of directors representative of employees shareholders
Shareholders	***Payout, Stock market performance***

2.3. Method of analysis

To compare public and private firms we performed mean difference tests. We compared successively the public firms sample to the two private firms samples.

For each comparison, we checked the equality of variance. In case of non equality we used the appropriate t statistic. For dummy variables we performed Khi² tests.

The non normality of data is not a problem in our study. Indeed, the tests used are robust to non normality of data as long as each sample size is over 30. In our case, each sample is composed of more than 50 firm/year observations. We also checked that our results are not distorted by extreme values.

3. RESULTS AND DISCUSSION OF THE EMPIRICAL STUDY

The comparison of companies owned by the French government with non government companies shows great similarities on financial performance and financial policies. The major differences concern the corporate governance structure and the repartition of power between shareholders, top managers and employees. We discuss those four aspects before concluding on the paper's contributions.

3.1. Comparison of financial performance and policies

First tests study the financial performance of public firms compared to private ones. Table 3 presents the results of the comparison. We also compared the financial policies: investment policy, capital structure and payout policies. Table 4 presents the results of these tests.

Table 3 – Financial performance: Results of mean differences tests between public and private firms

RA1: Abnormal return of stock price over a year – ***QTOBIN***: Tobin's Q – ***ROS***: Return on Sales – ***ROA***: Return on Assets – ***ROE***: Return on Equity – ***SPE***: Sales per employee – ***IPE***: Income per employee

Variables	Firms	Control sample 1 French companies		Control sample 2 French, German and British companies	
		Mean	t	Mean	t
RA1	PUBLIC	5,93%	-1,571	3,95%	-1,274
	PRIVATE	19,07%		10,27%	
QTOBIN	PUBLIC	,6858	-2,382**	0,74	-1,435
	PRIVATE	,8404		0,82	
ROS	PUBLIC	3,67%	-,150	2,72%	-,276
	PRIVATE	3,86%		3,16%	
ROA	PUBLIC	0,36%	-1,979*	0,18%	-1,800*
	PRIVATE	3,42%		2,76%	
ROE	PUBLIC	11,98%	-,363	15,26%	-,880
	PRIVATE	13,52%		24,63%	
SPE	PUBLIC	260,7984	5,315***	257,1600	-1,902*
	PRIVATE	162,9460		218,7943	
IPE	PUBLIC	12,5845	1,957*	10,4067	-,516
	PRIVATE	6,2282		8,3383	

*, **, *** significant at the 10%, 5% and 1% level, respectively

Table 4 – Financial policies: Results of mean differences tests between public and private firms

CESA: Investment expenditures on sales - ***CETA:*** Investment expenditures on assets – ***DEBT:*** Debt on assets – ***LTDEBT***: Long term debt on assets – ***PAYOUT1***: Payout rate – ***PAYOUT2***: Payout yield

Variables	Firms	Control sample 1 French companies		Control sample 2 French, German and British companies	
		Mean	t	Mean	t
CESA	PUBLIC	10,27%	3,955***	10,71%	3,760***
	PRIVATE	5,03%		5,91%	
CETA	PUBLIC	5,20%	,887	5,37%	,857
	PRIVATE	4,64%		4,84%	
PAYOUT1	PUBLIC	61,58%	1,148	62,56%	-,408
	PRIVATE	34,11%		96,60%	
PAYOUT2	PUBLIC	2,00%	-,619	2,13%	-,430
	PRIVATE	2,14%		2,25%	
DEBT	PUBLIC	28,30%	-,978	31,84%	2,630***
	PRIVATE	31,41%		23,08%	
LTDEBT	PUBLIC	20,46%	,361	23,43%	,276
	PRIVATE	19,44%		22,62%	

*, **, *** significant at the 10%, 5% and 1% level, respectively

Table 3 shows that the financial performance of firms where government is a shareholder is not significantly different from private firms. The public firms' return on equity, return on sales and stock price performance are smaller but not significantly. This similar performance is partly explained by the fact that private and public financial policies are quite close (Table 4). Indeed, payout policies, debt structure and the ratio of investment expenditures on assets are comparable.

We only observe significant differences in return on assets (ROA), Tobin's Q and productivity of employees. We also notice greater investment expenditures on sales in public firms, and a different level of debt. However, we think differences in debt and Tobin's Q are not significant:

- The difference in the level of debt is only significant when comparing with the second sample. And it concerns short term debt as the long term debt ratio is similar. So we assume that the capital structure do not differ significantly between public and private firms.
- Moreover, differences in Tobin's Q only appear when comparing public firms to the first sample. Tobin's Q is also a measure of investment opportunities as comprehended by markets. So, differences can be explained by the greater investment opportunities of those private French firms. The French sub sample includes some smaller firms, who might have taken advantages of the recent opening to competition of some ex public markets. So, it seems logical they face some greater investment opportunities. However, we do not find the same differences with the second sample. We can conclude that government ownership in companies do not lead to a smaller market performance or less investment opportunities.

On the other hand, the comparison of the ROA ratio shows a lower performance of public firms. Indeed, the level of assets for public firms is bigger. This is linked to the fact that public firms invest more than private firms: the ratio of investment expenditures on sales is higher for public firms. This important level of assets damages the economic profitability. We wonder why public firms have more assets: do they need more assets? Is it a consequence of their former status of public firm? Or is it a sign of capital waste and unprofitable investment? At last, we note a significantly higher productivity of employees in public firms, contrary to results from previous researches on productivity of public firms. It suggests productivity increases when the firm becomes listed, or when the government shares ownership with

private investors. This better performance may be the consequence of the specific repartition of power and profit in government listed companies, as shown in the following section.

In conclusion, these results bring a new point of view to the study of privatization and government shareholding. According to literature, privatization has a positive influence on the financial performance of firms. Our results complete these studies by showing that the presence of a government as a shareholder has no negative impact on performance. Even more, the productivity of employees seems better when the government is the major shareholder.

Thus, we suggest that a lack of competition or a lack of monitoring by financial markets might weaken a firm performance, but not the fact a firm is owned by a government.

3.2. Comparison of corporate governance and repartition of power

The comparison of public firms with private ones shows great similarities on financial performance and financial policies. We now wonder if this similar performance is a consequence of firms having the same objective: shareholder value, or do public firms succeed in being efficient while seeking stakeholder value. As mentioned in our literature review, different firms' objectives should lead to different governance structure.

Thus, to investigate this issue, we compare the governance structure and the repartition of power and profit between shareholders, top managers and employees in public and private firms. Our tests show major differences.

Table 5 and Table 6 present the results of the comparison between corporate governance structures of public firms and private ones. We also compared the repartition of power between public firms and private ones. Table 7 presents the results of these tests.

Table 5 – Corporate governance: Results of mean differences tests between public and private firms

MANOW: Managerial ownership – ***SIZE***: Size of board Number of directors – ***IND***: % of independent directors - ***STOCKOPT:*** Stock options held by managers – ***VARSAL***: Performance related remuneration

Variables	Firms	Control sample 1 French companies		Control sample 2 French, German and British companies	
		Mean	t	Mean	t
MANOW	PUBLIC	00,02%	-5,68***	0,01%	-5,08***
	PRIVATE	23,89%		17,35%	
SIZE	PUBLIC	15,85	6,909***	16,07	6,559***
	PRIVATE	11,48		12,24	
IND	PUBLIC	24,59%	-5,92***	25,31%	-7,39***
	PRIVATE	43,16%		45,31%	
STOCKOPT	PUBLIC	00,45%	-2,008**	0,39%	-1,762*
	PRIVATE	2,04%		1,45%	
VARSAL	PUBLIC	37,90%	2,295**	37,71%	2,411**
	PRIVATE	30,68%		30,44%	

*, **, *** significant at the 10%, 5% and 1% level, respectively

Table 6 – Corporate governance: Results of Khi² tests between public and private firms

VOTE: Dual voting rights - ***DISSCEO***: Dissociation of the functions of chairman and CEO - ***REMUCOM***: presence of a remuneration committee – ***NOMICOM***: presence of a nomination committee - ***AUDITCOM***: presence of an audit committee

Variables	Modalities of dummy variables	Control sample 1 French companies			Control sample 2 French, German and British companies		
		PUBLIC FIRMS	PRIVATE FIRMS	Khi²	PUBLIC FIRMS	PRIVATE FIRMS	Khi²
VOTE	No	36	3	46,88***	43	27	15,70***
	Yes	11	43		11	35	
DISSCEO	No	30	13	11,83***	37	13	26,61***
	Yes	17	33		17	49	
REMUCOM	No	5	12	3,71*	5	15	4,51**
	Yes	42	34		49	47	
NOMICOM	No	11	20	4,21**	13	22	1,78
	Yes	36	26		41	40	
AUDITCOM	No	0	14	16,84***	0	14	13,87***
	Yes	47	32		54	48	

*, **, *** significant at the 10%, 5% and 1% level, respectively

Table 7 – Repartition of power: Results of mean differences tests between public and private firms

EMPOW: % of Employee ownership - ***DIREMP***: Number of directors who are employees - ***DIRAS***: Number of directors' representative of employee shareholders - ***MANEMP***: Top managers mean remuneration / Employee mean remuneration – ***MANEMP2:*** Top managers mean remuneration / Payroll - ***EMPGROWTH***: Relative growth of number of employees

Variables	Firms	Control sample 1 French companies		Control sample 2 French, German and British companies	
		Mean	t	Mean	t
EMPOW	PUBLIC	5,02%	1,158	4,73%	1,354
	PRIVATE	3,71%		3,41%	
DIREMP	PUBLIC	3,19	9,264***	3,44	6,958***
	PRIVATE	0,07		0,53	
DIRAS	PUBLIC	0,94	4,896***	0,87	5,622***
	PRIVATE	0,24		0,18	
MANEMP	PUBLIC	17,0082	-4,015***	17,92	-2,857***
	PRIVATE	35,1818		26,24	
MANEMP2	PUBLIC	0,0003	-3,246***	0,0003	-2,795***
	PRIVATE	0,0006		0,0005	
EMPGROWTH	PUBLIC	6,26%	0,098	5,34%	0,397
	PRIVATE	5,67%		3,39%	

*, **, *** significant at the 10%, 5% and 1% level, respectively

Our tests show major differences between private and public listed companies concerning the corporate governance structure, and the repartition of power between shareholders, top managers and employees.

In public listed companies, the board of directors' structure differs from what is suggested by corporate governance codes worldwide and from what the private equivalent companies do. Boards are bigger and less independent. CEOs are more frequently the chairman of the company. In compensation, boards are always assisted by an auditing committee and often by nomination or remuneration committees. Moreover, dual voting rights are less frequent.

A part of those divergences results from law. The composition of public companies' board is regulated. The laws of July 1983, August and October 1986 and the Giraud law of 1994 generalize the presence of employees as director in companies controlled by the French State (Hollandts and Guedri (2008)). For companies over 1 000 employees, a third of directors must be employees. The number of state representatives is also regulated. Thus, the lack of board independence in public companies is explained by the large number of state representatives and employees.

The French government also forces companies it controls to promote employees' ownership and to put a representative of employees shareholders at the board. However, we note no differences in employees' ownership between public and private firms.

It appears that "good governance principles" are not well implemented in public companies, but as seen before, it does not seem to affect performance. In fact, those principles are sometimes called into question as they might not be adapted to all companies. Top managers of companies with a government as the major shareholder may be controlled a different way. In public firms, CEOs are monitored in a different way. They are paid less, but with a bigger part of the salary indexed on performance. They are given less stock-options and have a smaller ownership in the company. Employees are also part of the monitoring process of managers as they are represented at the board of directors.

From a minority shareholder point of view, this governance structure does not have to be questioned. Indeed, dividend payout and stock performance are equivalent to those of private firms who yet have smaller and more independent boards.

Our tests also show a different repartition of profit between top managers and employees. Beyond promoting employees' presence at the board, we also note that employee' wages compared to top managers' ones are higher than in private firms. The part of top managers' remuneration in payroll is also smaller. Even if the relative growth of the number of employees is equivalent to private firms, the relative power of employees is significantly higher in public firms.

The French government, through law or internal regulation, appears to offer more control and profit to employees. The performance of the firm is not significantly impacted by this specific repartition between top managers and employee and the part of profit going to shareholders is not reduced. The French government treats himself and the minority shareholders as in any other private companies. Thus, this stronger consideration to employees is not a cost to shareholders, but maybe it is to top managers.

These facts might evolve. Recently, within the framework of a national crisis plan to help car manufacturers, the French government has granted a loan to Renault. It then asked Renault not to pay dividends in 2009[3]. Moreover, recently the French president Nicolas Sarkozy proposes a reflection on other ways to share out profit between shareholders and employees in French companies. This might have soon an impact on the repartition of profits in companies

[33] For more details look at newspaper article : **Les Echos**, 15 janvier 2009, "L' Etat Pousse Renault À Renoncer Au Versement D'un Dividende", Fainsilber D.

where the French government is a major shareholder and enables a fairer repartition not only between managers and employees, but also shareholders.

CONCLUSION

Our study underlines several differences between listed firms, whether they are owned by the French government or not. Their performance and their financial policies are very close, however the governance structure and the repartition of profit is different.

According to governance code, "public" boards should be less efficient in monitoring managers, as they are bigger, less independent and because of the non separation of the chairman and CEO functions. But the presence of a government as a shareholder, as well as the employees and committees' monitoring on managers may act as a substitute to classic monitoring tools such as stock-options, managerial shareholding or independent boards. This different governance structure enables public firms to be as profitable as private ones.

Specificities linked to government ownership also drives to a different repartition of profit. Employees appear to capture a larger part of profit and power to the detriment of top managers. They are better paid and participate more to the decision process. However, shareholders do not seem to suffer from this different sharing out. The French government treats himself as any private shareholder who seeks shareholder wealth. Dividend policy and stock price performance do not differ from a private company.

If the performance of a firm can suffer from a lack of competition, it seems not impacted by the government control. Moreover, the government ownership enables a different repartition of profit fairer to employees. This might be a sign of a more social responsible behavior of public firms than private ones. In these times of economic crisis where top managers' power is challenged, this behavior might be more and more frequent even in private companies.

To complete this study, it would be interesting to analyze foreign governments' behavior toward listed firms they control. Do they also have different governance structure or repartition of power? Are they also inclined to pursue stakeholder value more than shareholder value? It would also be interesting to go deeper in the comparison of social and environmental responsibility between government owned companies and private firms. Do governments' shareholding drives to more ethical companies than private shareholding?

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