ENTREPRENEURSHIP VS. PRIVATIZATION: THE CASE OF SLOVENIA (SUMMARY)

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Recommended Citation
Available at: http://digitalknowledge.babson.edu/fer/vol27/iss12/2

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SUMMARY

ENTREPRENEURSHIP VS. PRIVATIZATION: THE CASE OF SLOVENIA

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Principal Topic

The defining characteristic of a transition economy is a shift to market-driven, private-sector economic activity. Kornai (1992, page 459) notes “…the revival of the private sector is among the most important changes that take place in the socialist system during the process of reform.” Private sector growth comes from two main sources: the privatization of formerly state-owned enterprises (SOEs) and the creation of new, private firms. In either case, the benefits of private ownership are found in the agency theory, corporate governance, and managerial incentive arguments of Jensen and Meckling (1976).


Method

This paper compares the performance of privatized enterprises to that of newly created ventures. We test a series of hypotheses around productivity and financial performance suggesting that de novo private sector firms perform better than privatized firms. The analysis builds on Smith, et al., (1997), which analyzes efficiency gains in Slovenian manufacturing firms as a result of privatization and foreign ownership between 1989 and 1992. We extend this work by comparing privatized firms to entrepreneurial start-ups. Further, our research incorporates a larger dataset (more firms and years) which enables us to track performance from the early stages of Slovenian transition, through Slovenia’s 2004 entry to the European Union.

Results and Implications

We are working with a database of which contains detailed income statement and balance sheet data on 30,000 Slovenian firms from 1995-2004. We estimate a total factor productivity growth model and control for defensive restructuring and strategic restructuring. Our results focus on performance differences between privatized enterprises and newly-established firms. We anticipate significantly better performance for de novo firms and believe our results will support the claim that that the resources in transition economies should be focused on developing the institutions needed to foster entrepreneurial activity rather than the privatization process.

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