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PRIVATISING NATIONAL OIL COMPANIES: THE IMPACT ON FIRM PERFORMANCE AND EFFICIENCY

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Overview

We investigate the impact of privatisation on the performance and efficiency of state-owned oil companies. The proposition that ownership matters, i.e. that state-owned firms tend to be less profitable and less efficient than privately owned firms has been tested and broadly supported by a number of large-scale cross-industrial studies (for a good summary see Megginson and Netter (2001)). Other studies, however, have highlighted the importance of factors such as competition and regulation relative to ownership (Newbery and Pollitt (1997), Vickers and Yarrow (1991)). This paper is the first detailed empirical study of privatisations in the global oil and gas sector, where questions of resource control have regained widespread attention. Importantly, our study is not limited to the analysis of initial share offerings, but tracks the performance and efficiency of firm throughout the respective privatisation processes, often involving multiple equity offerings over time.

Methods

We approach the question in two different ways: first, an exploratory cross-sectional comparison investigates performance differentials between state-owned and private companies. Using accounting data from various issues of the Fortune Global 500 list, supplemented by information gathered on the largest 100 oil and gas companies (as listed in Petroleum Intelligence Weekly), we perform univariate tests as well as a multivariate regression analysis, controlling for factors such as the operational mix of companies and the degree of state ownership. Secondly, and much more substantially, we then conduct a panel data analysis of share issue privatisations of National Oil Companies (NOCs). Using extensive accounting data from more than 20 global NOCs, which have been involved in approximately 60 privatisation offerings since 1977, we again conduct univariate tests (pre-privatisation vs. post-privatisation) and a number of multiple regression models. Overall, the analyses covers 22 different metrics of profitability, efficiency, capital investment, output, labour productivity, financial leverage and dividend policy. Using the multiple regression framework we investigate the effect of changing levels of state ownership whilst controlling for macroeconomic factors (oil prices, refining margins, growth of oil demand) as well as for firm- and country-level effects.

Results

The exploratory, cross-sectional comparison confirms that differences exist between private oil companies and NOCs. These differences are most significant in terms of labour productivity, but differences in profitability are also statistically supported, with the state-owned firms underperforming their private counterparts. The data also suggests that fully state-owned companies tend to underperform companies that are still state-controlled, but have part of their share capital in private hands. The results highlight, however, that factors other than ownership (such as the companies' mix of assets and activities) are of higher significance for most performance metrics. The more detailed panel data on oil company privatisations confirms that privatisation on average has beneficial consequences for profitability, efficiency and labour productivity. It is also shown that the pattern, timing and size of privatisation offerings impact on firm performance and efficiency.

Conclusions

This paper is the first detailed empirical study of privatisations in the global oil and gas sector. It generally confirms results of previous studies that privatisation has a positive impact on a number of important firm metrics such as output, labour productivity and profitability. Furthermore, it is shown that the temporal and structural pattern of privatisation offerings has a measurable impact on such performance metrics. The study also suggests, however, that ownership usually is not the most important single driver of performance and efficiency. Overall, the study makes an important contribution to our understanding of state ownership and privatisation in the oil and gas sector and thus is of practical relevance for current debates on resource ownership.

References

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