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THE INFLUENCE OF OWNERSHIP ON PERFORMANCE: STAKEHOLDER AND STRATEGIC CONTINGENCY PERSPECTIVES

ABSTRACT

In this paper we extend the corporate governance literature by combining stakeholder and strategic contingency theories to provide an explanation of how owners influence the financial performance of firms. We hypothesize that ownership influences financial performance through three other variables: strategic orientation, organizational structure, and management style. Using LISREL analysis, we find this indirect influence to be significant. We also discuss implications for future research.

JEL-Classification: D21, G34, L1.

Keywords: Corporate Governance; Emerging Markets; Privatization; SOE; State Ownership.

1 INTRODUCTION

Research suggests that corporate governance differences may influence financial performance, yet it is not completely clear how. Scholars examining performance differences between State-owned enterprises (SOEs) and private firms have provided mixed results, but on average, these studies suggest that privatizing SOEs results in improved financial performance (e.g., Andrews and Dowling (1998); Martin and Parker (1997); Lioukas, Bountas, and Papadakis (1993); Lioukas and Kouremenos (1989)).

Why should ownership (for example, State-owned versus private) matter? Strategic management research has focused mainly on agency theory, concentration of ownership, and firm strategy-performance relationships (e.g., Lane, Cannella, and Lubatkin (1998)). These researchers suggest that when ownership is concentrated, owners may be able to more easily monitor and control the activities of management, thus managers tend to pur-

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sue strategies that maximize shareholder value. However, when ownership is spread out among numerous entities, less monitoring and control takes place allowing managers to pursue other strategies. Public choice theory has also been used by researchers to explain ownership influences (e.g., Cuervo and Villalonga (2000); Martin and Parker (1997)). Public choice theory suggests that State-owned firms might pursue vote-gaining goals instead of efficiency goals because of the pressures imposed by politicians. Hence, the corporate governance literature suggests that owners influence firm performance through their impact on firm strategy.

Stakeholder theory appears to offer a broader explanation of how owners influence firm performance. Stakeholder theory suggests that managers¹ might respond to pressures exerted by owner-stakeholders because of power, legitimacy, and urgency considerations (Frooman (1999)). Scholars have used stakeholder theory to suggest that owner-stakeholders influence managerial decisions regarding firms strategic orientation (Berman et al. (1999)), management style (Wright et al. (1996)), and organizational structure (Brouthers and Bamossy (1997)). These findings are important, because researchers using strategic contingency theory have found that management style, strategic orientation, and organizational structure influence financial performance (Barringer and Bluedorn (1999); Slevin and Covin (1997); Tan and Litschert (1994); Naman and Slevin (1993)). Hence, we suggest that combining stakeholder and strategic contingency theories might provide a more all-encompassing explanation of why ownership matters.

In this study we concentrate on commercial State-owned and formerly State-owned (privatized) firms. We use the term “State-owned enterprises” (SOEs) to mean those firms with greater State ownership (controlling equity ownership). We use the term “privatized firms” to mean formerly State-controlled firms in which the level of State ownership is lower and private owners now have control.

Our objective is to extend the corporate governance literature by using stakeholder and strategic contingency theories to theoretically and empirically explain how owners influence the financial performance of firms. We use stakeholder theory to examine the impact of ownership on the management style of the firm, the aggressiveness of the strategies the firm follows, and the organizational structure management adopts. We then apply strategic contingency theory to explore how these factors influence the financial performance of the firm.

2 THEORY AND MODEL DEVELOPMENT

Frooman (1999) suggests that stakeholders influence management through resource usage and withholding mechanisms. Resource withholding mechanisms exist “where the stakeholder discontinues providing a resource to a firm with the intention of making the firm change a certain behavior” (Frooman (1999, 1996)). Usage mechanisms “are those in

1 Throughout this paper, the words “managers” or “management” refer to the top managers in the organization, those responsible for developing and implementing strategy.

which the stakeholder continues to supply a resource, but with strings attached” (Froman (1999, 197)).

Murtha and Lenway (1994) maintain that governments are able to influence management because they control three key strategic resources: authority, markets, and property rights. Governments might use their authority over enterprises to directly and indirectly influence strategy, management style, and structure, for example, by appointing firm managers, participating on boards of directors, and providing direct/indirect subsidies. Governments may also gain influence through markets, which can have varying degrees of openness (free market) or control (closed market). Finally, in many countries property rights are still not clear, which may provide the State with the opportunity to influence firm activities.

2.1 MANAGEMENT STYLE

Barringer and Bluedorn (1999, 421) maintain “that entrepreneurial attitudes and behaviors are necessary for firms of all sizes to prosper and flourish in competitive environments.” Covin and Slevin (1988) and others (Barringer and Bluedorn (1999); Naman and Slevin (1993)) define entrepreneurial management style as a manager’s willingness to take risks, to be proactive in competing with other firms, and to innovate. Using stakeholder theory, we suggest that an entrepreneurial management style is more likely to be found in privatized than in State-owned firms.

Meggison, Nash, and van Randenborgh’s (1994) research suggests that owners of privatized firms may use both withholding and usage mechanisms. They state that “privatization promotes entrepreneurship, former SOEs will have the incentive and the means to invest in growth options” (Meggison et al. (1994, 436)). Furthermore, Andrews and Dowling (1998) and others (Carlin and Landesmann (1997)) suggest that in privatized firms, formerly State-appointed managers might be replaced by more proactive, market-oriented managers. An additional consideration made by these same authors is that after privatization, incentive systems may be modified in such a way that both existing and newly appointed managers are induced to be more innovative and to take greater risks. Zahra et al. (2000) and Cuervo and Villalonga (2000) find that to achieve greater firm efficiency and to obtain a competitive advantage, managers of privatized firms tend to pursue strategies that put the firm at greater risk.

A comparable argument can be made for SOEs. Since SOEs have their managers appointed by the government (Whitley and Czaban (1998)), these managers might be less willing to take risks, since risk-taking implies changing or altering the strategies imposed by the State (Luo and Tan (1998); Carlin and Landesmann (1997); Estrin (1994)). Although such risks might be commercially attractive, they are not necessarily congruent with State goals. Since the State is the powerful stakeholder, it can replace managers that take risks (i.e., those that do not follow State directions) with someone who is more likely to pursue governmental rather than commercial goals. SOEs may also be less proactive (Estrin (1994)), since many SOE managers see their position as responding to the demands of the State. Rather than being proactive, these managers are likely to wait for State direction and

not take matters into their own hands. Finally, innovation may play only a minimal role in SOEs, since strategies tend to be historically consistent (Whitley and Czaban (1998)). In fact, Lioukas, Bourantas, and Papadakis (1993) find that for Greek firms, innovation is negatively related to the level of State control. Managers of SOEs may perceive innovation, risk taking, and proactive behavior as working against the interests of the State (Carlin and Landesmann (1997)). Hence, we suggest:

Hypothesis 1. *Owner-stakeholders directly influence management style such that, ceteris paribus, firms with greater State ownership (SOEs) are likely to utilize a less entrepreneurial management style than are firms with less State ownership (privatized firms).*

2.2 STRATEGIC ORIENTATION

As in previous studies (Tan and Litschert (1994); Miller and Friesen (1983)), we conceptualize strategic orientation as a continuum ranging from highly aggressive proactive strategies to less-aggressive defensive strategies. Tan and Litschert (1994) suggest that strategic aggressiveness is a multifaceted concept that is determined by the levels of analysis, defensiveness, futurity, riskiness, and proactiveness of the strategy.

Luo and Tan (1998), Estrin (1994), and Parker (1995) suggest that withholding and usage mechanisms might explain why SOE strategies tend to be more defensive, less future oriented, and more risk averse than are privatized firm strategies. First, State owner-stakeholders may control suppliers, distribution channels, and pricing, which deters risk taking (Estrin (1994)). Second, to avoid mistakes that might embarrass the government, politician stakeholders may pressure SOEs into using low-risk procedurally oriented strategies (Parker (1995)). Third, SOEs may be less proactive because “product diversification and business development are usually constrained” by the government/owners (Luo and Tan (1998, 28); Zahra et al. (2000); Cuervo and Villalonga (2000)). Finally, SOE strategy may be less future oriented because SOE managers are appointed by the State and the State may introduce “frequent changes in the firm’s leadership” if the managers adopt strategies other than those proposed by the State (Luo and Tan (1998, 28); Brouthers and Bamossy (1997)). Tan and Litschert (1994) provide some tentative empirical support for this perspective. They find that in China, SOEs are likely to have defensive strategic orientations.

De Castro, Meyer, Strong, and Uhlenbruck (1996) provide two explanations as to why privatized firms may utilize more aggressive strategies than do SOEs. First, privatized firm strategy may be more proactive because of differences in modes of social control. Privatized firms may find “managerial decisions are informed by the contingencies of the competitive market,” not by political considerations (De Castro et al. (1996, 378); Cuervo and Villalonga (2000)). Second, because privatized firms rely on the capital market for funding, they need to be efficient. Inefficient firms may be subject to takeovers or bankruptcy (Zahra et al. (2000)). This research suggests that compared to SOEs, privatized firms receive larger payoffs from developing more aggressive, innovative strategies that might give them a competitive advantage (De Castro et al. (1996)). Consequently, the risk/reward trade-off may

be more advantageous for privatized firms than for SOEs, and as a result, privatized firms might develop higher risk strategies. Further, Andrews and Dowling (1998) and Carlin and Landesmann (1997) suggest that privatization helps to increase the concentration of ownership and provides the incentives that make the organization more responsive to market demands. Luo and Tan (1998) present empirical evidence that supports the more aggressive nature of privatized-firm strategy. They find that in China, although SOEs pursue defensive strategies, private firms (MNEs) prefer more aggressive (analyzer) strategies. Parker (1995) also supports this result, finding that SOEs privatized in the U.K. tended to change from nonaggressive procedural-oriented strategies to more aggressive, market/consumer-oriented strategies. This discussion suggests:

Hypothesis 2. *Owner-stakeholders directly influence strategic orientation such that, ceteris paribus, firms with greater State ownership (SOEs) are likely to utilize less aggressive strategies than are firms with less State ownership (privatized firms).*

2.3 ORGANIZATIONAL STRUCTURE

Some researchers suggest that an organic organizational structure “is best suited to coping with or adapting to a turbulent environment” (Jennings and Seaman (1994, 460); Covin and Slevin (1988); Burns and Stalker (1961)). Organic structures are characterized as flexible, informal, and decentralized, while mechanistic structures are normally thought of as rigid, formal, centralized, and bureaucratic.

As stakeholder theory suggests, “the continuing dependence of state-controlled organizations [...] on the bureaucracy and the state in general, restricts the degree of decentralization of decision making to business units” (Whitley and Czaban (1998, 270)). Therefore, SOEs are likely to be more centralized, and to utilize more formal, procedural-oriented organizational structures (Whitley and Czaban (1998); Parker (1995)). In addition, Dharwadkar, George, and Brandes (2000) suggest that SOEs may be constrained in their organizational culture. This constraint can restrict organizational flexibility and create a more bureaucratic structure. Hence, SOE organizational structures may be more mechanistic than organic (Parker (1995)).

Privatized firms may be more successful at adopting organic organizational structures. Private owner-stakeholders can pursue goals that decrease employment and increase capital spending, thus providing the firm with greater organizational flexibility (Andrews and Dowling (1998); Megginson et al. (1994)). Whitley and Czaban (1998) and Parker (1995) suggest that decentralization of decision making and less formality in internal reporting accompanies privatization because private owner-stakeholders normally focus on strategic control and delegate operating control, while SOE owner-stakeholders tend to centralize operating control requiring more formal internal reporting systems. Furthermore, De Castro et al. (1996) suggest that the mode of social control and differences in

sources of funding may motivate privatized firms to utilize more organic organizational structures. Hence, we suggest that:

Hypothesis 3. *Owner-stakeholders directly influence organizational structure such that, ceteris paribus, firms with greater State ownership (SOEs) are likely to utilize more mechanistic organizational structures than are firms with less State ownership (privatized firms).*

2.4 THE INFLUENCE OF MANAGEMENT STYLE ON STRATEGY AND STRUCTURE

As outlined above, stakeholder theory suggests that management style, strategic orientation, and organizational structure, may each be directly influenced by ownership. In addition, owner-stakeholders might influence strategy and structure indirectly through management style.

Past strategic contingency research suggests that management style and strategy are related (Lumpkin and Dess (1996)). Researchers find that firms with more entrepreneurial management styles are likely to utilize more aggressive strategies (Luo and Tan (1998); Jennings and Seaman (1994)). This research suggests that owner-stakeholders may indirectly influence strategic aggressiveness through their influence on management style. We propose that since SOEs tend to pursue less entrepreneurial management styles, they may also pursue less aggressive strategies:

Hypothesis 4. *Owner-stakeholders indirectly influence strategic orientation through management style such that, ceteris paribus, firms with greater State ownership (SOEs) are likely to utilize less aggressive strategies than are firms with less State ownership (privatized firms).*

Strategic contingency research also suggests that management style and organizational structure are related (Lumpkin and Dess (1996); Covin and Slevin (1988)). Researchers find that firms with more entrepreneurial management styles utilize more organic organizational structures (Jennings and Seaman (1994); Covin and Slevin (1988)). This research suggests that owner-stakeholders might influence organizational structure not only directly, but also indirectly through management style. We propose that since SOEs tend to pursue less entrepreneurial management styles, they may use more mechanistic organizational structures:

Hypothesis 5. *Owner-stakeholders indirectly influence organizational structure through management style such that, ceteris paribus, firms with greater State ownership (SOEs) are likely to utilize more mechanistic organizational structures than are firms with less State ownership (privatized firms).*

2.5 FINANCIAL PERFORMANCE

We combine stakeholder and strategic contingency theories to explain the influence of ownership on financial performance. As described earlier, stakeholder theory suggests that owner-stakeholders might influence the management style of the firm.

In addition, strategic contingency theory suggests that management style influences financial performance such that, in competitive markets, firms with more entrepreneurial management styles are likely to have higher financial performance (Naman and Slevin (1993)). Hence, stakeholder theory and strategic contingency theory tend to suggest:

Hypothesis 6. *Owner-stakeholders indirectly influence financial performance through their impact on management style such that, ceteris paribus, firms with greater State ownership (SOEs) are likely to have lower financial performance than are firms with less State ownership (privatized firms).*

Stakeholder theory also suggests that owner-stakeholders might influence a firm's strategic orientation. Financial performance differences may occur simply because SOEs give priority to other goals such as full employment and/or improved social welfare, but privately owned enterprises will pursue financial goals (Estrin (1994); Megginson et al. (1994)). Lioukas and Kouremenos (1989, 60) state that “[i]t would be reasonable to assume that the closer the enterprise to the central government, the more the exposure to political pressures and, consequently, the less the importance assigned to commercial criteria such as profitability.” Hence, financial performance may not be an objective of the State, and therefore may not be pursued by the organization².

Second, privatized firms may achieve higher financial performance because the strategic changes they make, such as changing suppliers, adding new more efficient technology, or changing prices, may not be acceptable alternatives from the State's perspective (Whitley and Czaban (1998)).

Strategic contingency theory also suggests that strategic orientation influences financial performance such that, in competitive markets, firms that use more aggressive strategies are more likely to be financially successful (Prescott (1986)). Hence, strategic contingency theory and stakeholder theory suggest that:

Hypothesis 7. *Owner-stakeholders indirectly influence financial performance through their impact on strategic orientation such that, ceteris paribus, firms with greater State ownership (SOEs) are likely to have lower financial performance than are firms with less State ownership (privatized firms).*

Finally, stakeholder theory suggests that owner-stakeholders might influence organizational structure. For the reasons noted above, State control may mean that SOEs are pre-

² We do not claim that these other goals are less desirable than financial goals, but we concentrate on financial performance measures to provide consistency and comparability with past studies.

cluded from making organizational changes that would improve financial performance (Whitley and Czaban (1998)). Privatized firms are more likely to improve flexibility by reducing staff and decreasing overheads and other burdens imposed by governments, which improves financial performance (Andrews and Dowling (1998); Carlin and Landesmann (1997)).

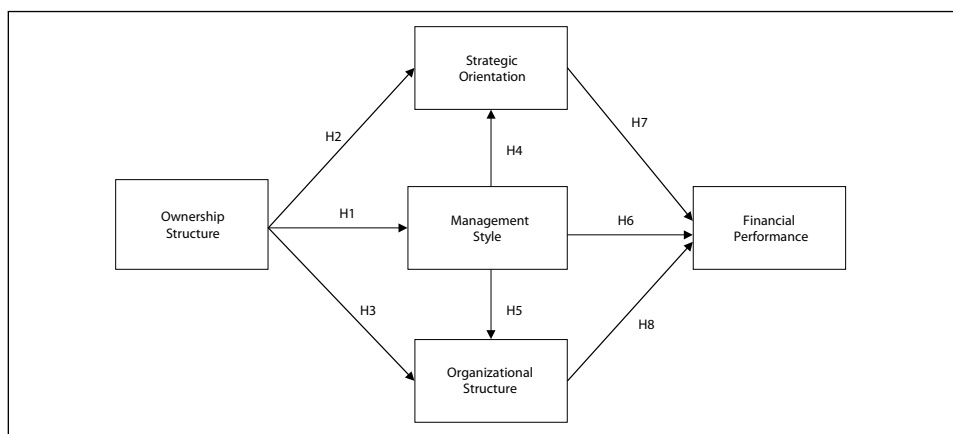
Furthermore, SOEs may be burdened with centralized control systems that are put in place so that the State owner-stakeholder can monitor and control the daily activities of the firm. Privatized firms are more decentralized, with decision making authority vested in the firm's management, not with the owner-stakeholders (Whitley and Czaban (1998)). Internal reporting requirements may also vary between SOEs and privatized firms. State owner-stakeholders may demand more frequent and detailed reports, compared to privatized-firm owners (Whitley and Czaban (1998)). Centralization and frequent reporting requirements tend to increase formality and costs, which may have a negative impact on financial performance.

Strategic contingency studies that examine organic/mechanistic organizational structures suggest that in competitive markets, firms that use more organic organizational structures may be more financially successful (Jennings and Seaman (1994); Covin and Slevin (1988)). Hence, strategic contingency and stakeholder theories suggest that:

Hypothesis 8. *Owner-stakeholders indirectly influence financial performance through their impact on organizational structure such that, ceteris paribus, firms with greater State ownership (SOEs) are likely to have lower financial performance than are firms with less State ownership (privatized firms).*

Figure 1 illustrates the hypothesized relationships between ownership, strategic orientation, organizational structure, management style, and financial performance discussed above.

Figure 1: Research Model and Hypotheses



3 METHOD

The transformation of former command economies of central and eastern Europe has made it especially important to understand how ownership influences financial performance (Whitley and Czaban (1998)). State ownership and control was the norm in these countries (OECD (1992)). Now, as these economies make the transition to free markets, firm ownership issues are being targeted as a primary driver of reform (OECD (1992)). Hence, we select a central and eastern European (CEE) research site.

We use a questionnaire to collect data from a group of Romanian managers. We chose Romania as our research site because Romania is one of a large number of CEE countries that has gone through economic transition since 1990; Romania is among the largest CEE countries, thus providing a large number of potential participants; and the privatization process in Romania has resulted in there being approximately equal numbers of State-owned and privatized firms at the time of this study (EBRD (1996)).

Romanian privatization was accomplished in two phases (EBRD (1996)). In phase one, about 30 large successful Romanian companies were auctioned to western investors. Studies indicate that those large firms with the greatest performance potential were privatized to foreigners (Martin (1999)). In the second part of the privatization process, the Romanian government issued vouchers to Romanian citizens (Martin (1999); EBRD (1996)). These vouchers could be exchanged for firm ownership. In many cases managers and employees used these vouchers to privatize the organizations in which they were employed (EBRD (1996)). We include only stage two privatized firms in our sample. Doing so has the advantage that selection bias is smaller than it would have been if we had included only stage one firms.

Because of financial and data collection restrictions, we did not randomly select companies. Instead, the firms we chose represent a convenient sample of firms drawn from the Brasov area. Brasov is the second largest city in Romania and is home to many large and small companies in a variety of industries. We obtained a list of potential participants by examining the Brasov area telephone directories. We restricted our choice of firms to manufacturing and service firms and excluded public service organizations. All firms included in this study were 100% State owned prior to 1990. We identified and contacted a total of 154 firms, and invited them to participate in this study.

Questionnaires were originally written in English than translated/back-translated into Romanian by two different individuals until both versions were similar. Because of the newness of data collection in Romania, all data were personally collected by a group of Romanian MBA students who had been trained by one of the researchers. To increase reliability, we attempted to obtain two responses from each organization in our sample. The MBA teams visited each organization. After discussion with organizational officials, the teams identified the "top" managers of the organization. Questionnaires were then distributed directly to these individuals. We received 122 completed questionnaires indicating that they came from the top managers (39 CEOs, 18 financial directors, 15 technical directors, 14 commercial directors, 13 general managers, six production managers, four

marketing managers, three quality managers, two personnel directors, three executive directors, and five unspecified), identified by the MBA teams.

3.1 VARIABLES

We defined our ownership variable as the percentage of State ownership in each organization. State ownership ranged from a high of 100% to a low of zero. We obtained the State ownership percentage by asking each respondent to disclose the percentage of ownership in their firm represented by the State, Managers and Employees, other Romanians, and Foreigners. For purposes of this study, we classified all non-State ownership as private ownership.

As in Barringer and Bluedorn (1999) and Naman and Slevin (1993), we measured entrepreneurial management style using nine seven-point Likert-type questions (Cronbach alpha = 0.9). We based these questions on the work of Covin and Slevin (1988).

We measured strategic orientation by using 15 seven-point Likert-type questions taken from Tan and Litschert (1994) (alpha = 0.93). These questions were based on the multifaceted measure of strategic aggressiveness developed by Miller and Friesen (1983).

We based organizational structure on Burns and Stalker's (1961) organic/mechanistic concept and measured it by using the instrument tested in Naman and Slevin (1993) and Covin and Slevin (1988). We measured seven questions on a seven-point Likert-type scale and used the results to form the construct (alpha = 0.81).

We use financial performance measures for this study. This is not to say that financial performance is the only objective for these firms, or even the preferred objective. However, using financial performance measures provides consistency and comparability with previous strategic contingency theory studies and with studies that examine performance differences between SOEs and privatized firms.

As in previous studies (Tan and Litschert (1994); Naman and Slevin (1993)), we measure financial performance by using a multi-item perceptual measure. A perceptual measure of financial performance appeared to be appropriate because of otherwise unreconcilable differences in accounting practices between State-owned and privatized firms. Based on a five-point Likert-type scale, we asked respondents to evaluate their firm's financial performance as compared with other firms in their industry in three areas, three-year profitability, sales growth, and overall financial performance. We then developed a composite index for performance (alpha = 0.88).

Finally, there is some indication that State ownership influence might depend on firm size (Lioukas and Kouremenos (1989)). Larger SOEs tend to attract more government attention than smaller SOEs. We test for firm size by using number of employees as the measure, since accounting measures of size lack consistency.

3.2 RESPONSE RATE AND INTER-RATER RELIABILITY

In total, we received completed questionnaires from 70 companies, of which 52 provided two responses. The remaining 18 firms provided one response each. Kozlowski and Hatrup (1992, 161) suggest that if inter-rater agreement is satisfactory, “it is theoretically legitimate to aggregate the perceptions [...] and to use the mean to represent this collective interpretation.”

We compared inter-rater agreement on the five major constructs included in our study. For the multivariate variables – managerial style, structure, strategy, and financial performance – we tested for inter-rater agreement using a measure suggested by James, Demaree, and Wolf (1984). Because the construct for State ownership used a continuous single indicant, we could not apply the James et al. (1984) measure. Instead, we calculated a correlation coefficient between both raters (Cohen (1968)). For five firms, we find an inter-rater agreement of zero on one or more of our sets of variables. In all these cases the observed variance was larger than the expected variance, indicating disagreement between respondents. We did not use the data on these five firms in further analysis.

Table 1 contains the results of the inter-rater analyses. The average inter-rater agreement (Table 1, “ r_{wg} ” column) for each of our constructs appears to be satisfactory (George (1990)). Since inter-rater agreement is high, we use the average scores, where available, in our empirical analyses.

Table 1: Characteristics of Measures and Inter-rater Analysis

Variable	N	# items	alpha	mean	s.d.	min	max	r_{wg}
State ownership	65	1	n/a	0.36	0.36	0.00	1.00	0.93 ^a
Management style	65	9	0.90	4.03	1.04	2.33	6.56	0.95
Strategy	65	15	0.93	4.76	0.91	2.53	6.33	0.96
Structure	65	7	0.81	4.16	0.97	1.14	6.43	0.94
Performance	56	3	0.88	3.49	0.78	1.67	5.00	0.97

^a Coefficient r (Cohen (1968)) for State ownership, and r_{wg} (James et al. (1984)) for all other variables.

3.3 ANALYTICAL METHOD

We perform all analyses with version 8.14 of LISREL, using maximum likelihood (ML) estimation. We use LISREL analysis to test our model because it allows us to incorporate indirect effects (which is necessary for testing our theoretical model, since the claim of our model is that ownership influences performance through its influence on three intervening variables) and the assessment of the fit of the data to the hypothesized model (Jöreskog and Sörbom (1989)). We did not estimate a measurement model. As suggested

by Bollen and Lennox (1991), the high variability of our constructs allows us to use one manifest variable (the summated scale) for each of our five latent variables.

We perform the analyses on a covariance matrix created with PRELIS (Jöreskog and Sörbom (1996)). For missing data we use listwise deletion, which results in a covariance matrix based on 56 observations. To correct for skewness of the strategy, structure, style, and performance variables, we use a power transformation. After this transformation, PRELIS tests for normality show satisfactory results. These results indicate that none of the four variables appears to suffer from skewness or kurtosis, suggesting that the transformations helped to make the data normally distributed.

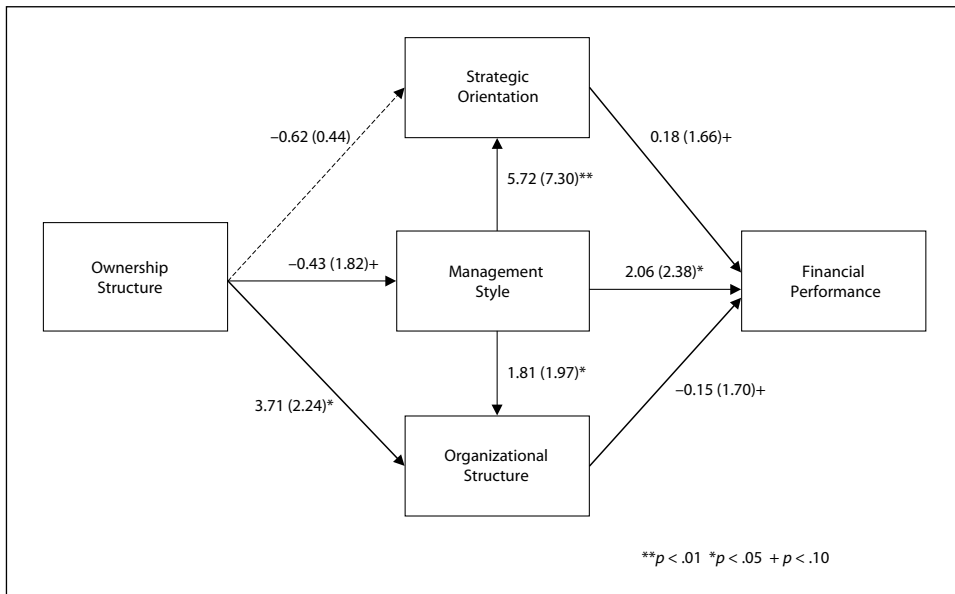
The ownership variable deserves special attention because it is censored both below and above, as this variable can only take on values between zero and 100%. This variable is not normally distributed, so the kurtosis differs significantly from what is expected for normally distributed variables. Fortunately, PRELIS is able to deal with censored variables. Before calculating the covariance matrix, we converted the observations on this variable to normal scores, using the methods outlined in Jöreskog and Sörbom (1996).

4 FINDINGS

Figure 2 presents the estimates obtained using LISREL-ML. Each path (arrow) on the model corresponds to a specific hypothesis (see *Figure 1*) and shows the path coefficient and *t*-values (in parentheses). We also include the two-tailed *p*-value indicating the significance (or lack thereof) for each path. *Figure 2* shows that the level of State ownership has a significant direct influence on organizational structure ($p < 0.05$) and managerial style ($p < 0.1$). As do Berman et al. (1999), we find that the direct influence of State ownership on strategic orientation is not significant.

Furthermore, we had hypothesized that the level of State ownership might have an indirect influence on both strategic orientation and organizational structure through management style. *Figure 2* shows that State ownership is indeed significantly indirectly related to both strategic orientation ($p < 0.01$) and organizational structure ($p < 0.05$) through management style.

Finally, we had hypothesized that the level of State ownership might be indirectly related to firm financial performance through organizational structure, management style, and strategic orientation. *Figure 2* indicates that the level of State ownership is indeed significantly indirectly related to financial performance through all three intervening variables, strategic orientation ($p < 0.1$), organizational structure ($p < 0.1$) and managerial style ($p < 0.05$).

Figure 2: LISREL Results

According to the LISREL-ML analysis, our model explained 6% of the variance in managerial style, 52% of the variance in strategic orientation, 12% of the variance in organizational structure, and 35% of the variance in our performance measure. Ultimately, the question to be answered is whether and to what extent ownership, through its influence on the intervening variables (managerial style, strategic orientation, and organizational structure), affects financial performance. The LISREL-ML analysis indicates that this indirect effect is significant at -1.87 (standardized -0.19 ; $t = 2.2$; $p < 0.05$). This result suggests that firms with less State ownership have significantly higher financial performance than do firms with more State ownership.

LISREL-ML also calculates a chi-square statistic that tests how well the model fits the data. A nonsignificant chi-square value indicates that the model fits the data well. Our chi-square test indicates no significant difference between the covariance matrix we observe and the covariance matrix implied by our model, indicating good model fit (chi-square $2df = 3.73$; $p = 0.16$). The goodness-of-fit index (GFI), adjusted goodness-of-fit index (AGFI), and normed-fit index (NFI) are 0.97, 0.81, and 0.95, respectively (an outcome of one indicates perfect fit). Gerbing and Anderson (1993) indicate that for smaller sample sizes (from 50 to 100), GFI, AGFI, and NFI are biased downwards. Thus, the values of the indexes we obtain should be considered good.

To test the robustness of our findings we perform two additional analyses. First, we test for any remaining influence of the level of State ownership on performance by examining the direct influence of the level of State ownership on performance (results not includ-

ed). Neither the improvement in model fit ($\chi^2_{1df} = 2.34$) nor the parameter itself are significant at the 10% level, which indicates that the direct influence of the level of State ownership on financial performance does not improve the explanatory power of the existing model.

Second, to investigate whether the results in our study could be explained by firm size, we perform two additional tests. As we suggested in the methods section, both the percentage of State ownership and performance may be influenced by firm size, and size may be the real cause of the relationships found in our study. If this claim were true, then after controlling for size, a relationship between both variables – percentage State ownership and performance would not exist. We calculate the partial correlation coefficient between both variables, controlling for firm size. This correlation coefficient equals -0.36 ($p < 0.01$), thus providing further support for our model. We also include firm size in our structural model (results not included) as an additional variable, and add two new structural parameters, the influence of size on percentage of State ownership and on performance. Neither of these parameters is significant, indicating that our results are robust.

5 CONCLUSIONS

Our findings support the hypothesis that the type of corporate governance influences performance through strategy, style, and structure. We find that Romanian firms with greater State ownership have significantly lower financial performance, thus providing some support for our hypotheses. Furthermore, as stakeholder theory suggests, financial performance appears to be influenced by owner-stakeholder influences on managerial style and organizational structure. It also appears that owner-stakeholders may influence strategy indirectly, through their impact on management style, as suggested by strategic contingency and stakeholder theories.

We find that for our Romanian sample of firms, greater State ownership is significantly related to less entrepreneurial management styles, as suggested by hypothesis 1. We find that the indirect influence of ownership on strategic orientation is significant, which provides support for hypothesis 4. But as in Berman et al. (1999), we find no support for hypothesis 2. Owner-stakeholders do not directly influence strategic orientation. We find support for hypotheses 6 and 7: owner-stakeholders have a significant indirect influence on financial performance through managerial style and strategic orientation, such that Romanian firms with greater State ownership (SOEs) were likely to have lower performance than were Romanian firms with less State ownership (privatized firms).

Our results relating to organizational structure are mixed. First, we find significant support for hypothesis 5: for our Romanian sample, a more entrepreneurial management style is significantly related to a more organic organizational structure. However, we find the opposite of what hypothesis 3 suggests: although we find that ownership is significantly related to organizational structure, greater State ownership appears to be related to more organic structures rather than mechanistic structures. Third, we find that ownership is significantly indirectly related to performance through organizational structure, such that

firms with more organic structures (SOEs) have significantly lower financial performance than do firms with more mechanistic structures (privatized firms). This result is contrary to what hypothesis 8 suggests. Hence, although for our sample of Romanian firms we find general support for stakeholder and strategic contingency explanations of ownership influence on financial performance, a number of our organizational structure expectations were not confirmed.

There may be contextual factors that influence our organizational structure results. We tested our hypotheses in Romania, an eastern European country going through a transitional-economic process (Martin (1999)). Aghion, Blanchard, and Burgess (1994) suggest that in eastern Europe, the State may be "an absentee owner, with neither the desire nor the expertise and manpower to run the firms" (Aghion, Blanchard, and Burgess (1994, 166)). They also suggest that although SOE managers may appear to have control, this may not be the case: control may come from below. Employee groups appear to have control in many eastern European SOEs and, in some cases, may be able to dismiss the managers (Martin (1999); Aghion, Blanchard, and Burgess (1994)). Furthermore, Gatian and Gilbert (1996) suggest that in central and eastern Europe, SOE financial performance may be low. They suggest that SOE managers/firms are likely to be held accountable for volume of output, not efficiency. Hence, State-owned firms tend to concentrate on political strategies (output) as opposed to economic strategies (efficiency); operational issues may be delegated to lower levels of the organization. This research tends to suggest that, at least in CEE countries like Romania, State ownership may be related to decentralized (organic) structures, which tend to perform poorly because of management's focus on output instead of efficiency. Future research is needed to better understand the relationship between ownership and organizational structure.

5.1 LIMITATIONS

Because we used cross-sectional data, we are only able to assess correlation, not causality. Consequently, we do not know whether the differences we find in our study are the result of ownership differences or simply the result of privatization differences. It might be that in Romania, only financially successful firms were privatized. We do not believe our results suffer from this bias, since we find no significant direct influence of ownership on performance, and because we use only those firms that were privatized under the Romanian voucher system, not firms acquired by foreigners. However, future studies that use a quasi-experimental design (Campbell and Stanley (1963)) to examine pre- and post-privatization performance may be able to help determine if such an issue affects the results of our study.

Furthermore, we only examine firms from the Brasov area of Romania. Hence, our findings may not be generalizable to firms in other countries or firms in different sociopolitical settings (for example, nontransitional economic settings). Future research could go a

long way in extending the generalizability of our findings by examining similar issues in other sociopolitical contexts.

Respondents provided perceptual measures of financial performance. Despite obtaining inter-rater comparisons, we have no way of knowing if these perceptions are accurate or not. It could be that managers in SOEs systematically report lower (higher) performance than do managers of privatized firms. Future research may wish to examine this issue, possibly by comparing managerial performance evaluations to objective performance measures for firms with different ownership structures.

5.2 SUGGESTIONS FOR FUTURE RESEARCH

Although our study suffers from several limitations, it does provide results that require further investigation. Our findings related to the organizational structure variable are, in two cases, different from what we had expected. Contrary to our expectations, we find that organic structures are more prevalent in SOEs than in privatized firms, and that an organic structure may have a negative influence on performance. These findings could indicate that the traditional distinction between mechanistic and organic organizations may not be applicable to SOEs in general, and/or in the former command economies in particular. Future studies that explore structural differences between firms, especially in former command economies, may wish to utilize other models of organizational structure.

We examine strategic and performance differences between firms with controlling levels of State ownership and firms with controlling levels of private ownership. Other studies may expand on this ownership issue and examine strategic and performance differences between firms with differing types of State/private ownership. For example, do firms owned by managers/employees make different strategic choices and perform differently than firms owned by outside parties (such as foreign firms, institutional investors, or the general public)? Do firms that are government agencies make different strategic decisions and perform differently than firms that are public corporations?

Our findings indicate that if the power of a stakeholder (in this case, the government) decreases, then the goals pursued by other stakeholders may gain in importance and the realization of those goals may improve. What remains implicit in our study and deserves further research attention is an estimation of the relative improvement and decreases in realization of the goals of multiple stakeholders: to what extent does the social utility of the gain in financial importance compensate the probable decrease in realization of stakeholder goals?

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