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**PRIVATIZATION AND ORGANIZATIONAL CHANGES:
EVIDENCE FROM SPAIN**

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Abstract

Although privatization has been widely analyzed, most studies have adopted a macroeconomic or political perspective, while little attention has been paid to its organizational and managerial implications. In this research, we develop two-case studies to analyze how corporate governance and strategy of privatized firms are related to the use of management compensation systems. Our results suggest that variables traditionally associated with greater board independence in carrying out monitoring (e.g., leadership structure and outsider/insider ratio) do not always result in variation after privatization. We find that firm's ownership change does not necessary imply differences in the way the firm is managed after privatization. The adoption of firm's strategic orientation based on the analysis of both the market and industry conditions in privatized firms, and the design of compensation systems aligned with this firm's strategy seems to be related to the fact that deregulation and competitiveness occur at the same time as privatization. Thus, we contribute to the current literature by providing a comprehensive framework to analyze management changes of privatized firms, and highlighting the key role that other contingent variables, not considered by agency theory, play on explaining this issue.

Keywords: Corporate Governance, Strategy, Compensation, Privatization.

PRIVATIZATION AND ORGANIZATIONAL CHANGES: EVIDENCE FROM SPAIN

1.- INTRODUCTION.

Privatization has become a popular strategy for promoting national economic development (Zahra, Ireland, Gutierrez and Hitt, 2000). Because privatization implies a change in corporate governance (or a firm's ownership), one would expect that owners' objectives would both translate into firm strategy and influence the way a firm is managed (Cuervo and Villalonga, 2000). In this sense, the compensation system has been recognized as a mechanism for aligning the objectives of managers as agents with the interests of owners as principals (Eisenhardt, 1989; Fama and Jensen, 1983).

Although privatization has been widely analyzed, most studies have adopted a macroeconomic or political perspective, while little attention has been paid to the organizational and managerial implications of privatization (Zahra, Ireland, Gutierrez and Hitt, 2000). At an organizational level, some studies have focused on analyzing the changes in governance structure that occur once firms go to private hands. The evidence provided by these studies shows mixed results that may be partly explained by board characteristics such as the number of outside directors or the tendency to favor a dual leadership structure (Bozec, Zéghal and Boujenoui, 2004; Cabeza and Gómez, 2007; Megginson, Nash and Van Randenborgh, 1994; Omran, 2009; Peng, Buck and Filatotchev, 2003). Other studies have focused on analyzing potential changes in strategy once firms are privatized (Cuervo and Villalonga, 2000; Ghobadian and Viney, 2002; Goydke, 2009; Nestor, 2005; Voges, Tworoger and Bendixen, 2009; Zahra and Hansen, 2000). At the same time, other studies have emphasized the role of incentives for management during privatization (Cragg and Dyck, 2000; Cuevas et al., 2007; Schröder, 2003; Thompson, 1999; Wolfram, 1998).

Despite the large number of studies found on this topic, to date and to the best of our knowledge, there has been no holistic, multi-level analysis that shows how the governance structure of the

entire firm - as well as firm strategy - relates to the use of incentives within the company (Cox, 2005). In this context, agency theory is a suitable lens through which to examine such relationships (Eisenhardt, 1989; Fama and Jensen, 1983). This theoretical perspective stresses that privatization will promote board changes with regard to chief executive officer (CEO) oversight, expecting a higher monitoring role of the board and higher use of incentive management after privatization (Young, Stedham and Beekun, 2000).

For this reason, the aim of this work is to analyze, from the perspective of agency theory, both how privatization influences corporate governance and firm strategy and what implications these issues have for the design of compensation mechanisms. We develop two case studies of privatized Spanish companies (Endesa and Iberia) to compare the pre- and post-privatization periods.

The contributions of this study can be summarized as follows. First, from a theoretical point of view, we provide a holistic and comprehensive framework that embraces three set of variables (corporate governance, strategy and compensation) to analyze the internal management changes of privatized firms. According to agency theory, privatization should lead to increase board independence and its control function over managers to achieve better alignment of owners' interests with the firm's management. However, we support that ownership change in privatization does not imply necessary differences in the way firms are managed after privatization. Thus, we highlight the key role that other contingent variables not considered by agency theory, such as the industrial sector, play on explaining this issue. Second, and from a methodological point of view, we develop multiple case studies that have been scarcely applied in corporate governance research. This methodology allows us to analyze in depth the firm's corporate governance and obtain rich descriptions of internal firm management that would have remained unknown if using other methodologies. Third and finally, we focus on the Spanish corporate governance idiosyncrasy. The Spanish case may enrich the debate on corporate governance research that has been ruled by the pattern of investor-management relationships typical of the Anglo-Saxon countries. Although there is a growing tendency to capital markets in Spain these days, they have been historically considered somewhat underdeveloped. This fact, together with the weak market for corporate control, low investors' protection and the

characteristics of the legal and financial systems could explain the emergence of different types of blockholders as alternative control mechanism in the Spanish case. By introducing the debate on these issues, we contribute to explaining the consequences of this corporate governance model on the management of privatized firms.

This paper is organized as follows. First, we present the theoretical framework that maps to this research. Second, we explain our research method, which is based on multiple case studies. Third, we describe our main findings from the collected data. Finally, we present discussions, conclusions and implications for future research.

2.-THEORETICAL FRAMEWORK

The research on corporate governance has been mainly dominated by agency theory (Lynall, Golden and Hillman, 2003) that suggests the existence of two mechanisms to align the interests of owners with those of managers (Eisenhardt, 1989; Fama and Jensen, 1983; Jacobides and Croson, 2001). The first is the monitoring function exercised by the board of directors; the second includes various incentive alignment mechanisms, such as pay-for-performance schemes (Lin, 2005; Rutherford and Buchholtz, 2007). Nevertheless, these mechanisms of governance are expected to be different in state-owned firms (SOEs) and publicly owned companies.

The existence of multiple interests, as is characteristic of SOEs, can in some cases be translated into the so-called “fuzzy” objectives that make the exercise of board monitoring and incentive alignment more difficult. In SOEs, social and political pressure often distracts managers’ attention from maximizing efficiency (Rourke, 1984). In addition, organizational obligations extend beyond shareholders and may have an impact on other interest groups (i.e., stakeholders) (Donaldson and Preston, 1995). The role of company management is to establish a balance between the interests of the various groups involved because this is the only way to guarantee the survival of the company. Nestor (2005) suggests that in SOEs, managerial decisions are often the result of political rather than performance-oriented imperatives. Boards are either political appointees or civil servants, as managers are. The disciplinary power of capital markets is absent in SOEs, which worsens the problem of managerial control. Besides, managers of SOEs have

limited discretion to initiate strategic activities (Cragg and Dyck, 1999), and they operate under bureaucratic limitations that restrict the scope of their activities and authority. Other possible obstacles to managerial discretion include the maintenance of a certain level of employment, the choice of suppliers or the sale prices of products or services (Cragg and Dyck, 2000). As a whole, there are reasons to expect difficulties for the use of incentive management and board monitoring in SOEs.

In contrast, publicly held companies are presumed to have just one principal, namely the shareholders. These shareholders may comprise a diverse group, but the divergence of interests between principals and agents is reduced through the existence of (1) a market of ownership rights that enables owners to sell if they are not satisfied with managerial performance; (2) the threat of a takeover; and (3) the threat of bankruptcy. In addition, board members, who are elected based on their business abilities. Privatization usually depoliticizes the decision-making process and company governance (Nestor, 2005) and creates a stronger link between the strategies followed by the company and owner objectives. Specifically, after privatization, the company and its management are beholden to the forces of the market because this is the context in which the company must survive and be successful. Therefore, managers must develop strategies based on their analysis of the industry and market conditions (Zahra, Ireland, Gutierrez and Hitt, 2000).

Cuervo and Villalonga (1999) highlight these changes expected in the strategy of privatized firms in terms of the company's objectives. Objectives become clearer and more centered on profitability as well as on ways to increase share price (Cuervo, 1995). In short, the measurement of results becomes easier, and compensation systems can be established to reconcile the company's objectives with the individual interests of its members (Ricart, Gual, López, Rosanas, and Valor, 1991). Then, a greater use of incentive alignment is expected to link owner interests to manager behavior after privatization.

Based on this literature, we develop our main proposition:

Privatized firms will exhibit improved control mechanisms and better alignment of owner and manager goals through board monitoring and incentive alignment.

Although these issues are to be expected from an agency theoretical point of view, we should acknowledge the idiosyncrasy of Spanish corporate governance. A number of literature reviews, concluding that evidence on what drives board effectiveness is mixed, recommend that future studies adopt a more contextually sensitive approach because a difference in national context can, for example, limit the applicability of standard agency theory assumptions of investor risk preferences, managerial behaviors and finally boards' functions (Yoshikawa and Phan, 2005). So, Pedersen and Thomsen (1997) defend different national patterns of ownership structures regarding several country-specific variables such as the size and liquidity of the stock market, the concentration of the banking sector, the existence of dual class shares or the openness of the economy to international capital.

Aguilera (2005, pp. 198) suggests that the Spanish case, along with that of Italy and to some extent France, follows the so-called Latin model characterized by strong state intervention, weak labor participation at the company level, and concentrated firm ownership.

These Spanish features are to some extent the legacy of 40 years of dictatorship under Franco when the state (with extensive industry ownership) and a privileged banking system were the main providers of capital to firms and little competition existed in either capital or product markets. Overall, according to Aguilera (2005), the current Spanish corporate governance scene is composed of newly privatized firms owned by core investors (some of them foreign), a weak market for corporate control, and sporadic use of Anglo-Saxon practices, although certain reforms have been undertaken to increase the transparency and accountability of firms, as well as the efficiency of boards of directors.

We develop the following empirical research to explain in depth how corporate governance influences firm strategy and internal compensation systems in the Spanish privatization context.

3.-RESEARCH METHODOLOGY

To analyze the effects of corporate governance and strategy on compensation practices, we employ a multi-case research method.

In line with Yin's (2003) suggestions, our selection of two cases was not arbitrary but rather designed to explicitly include contrasting situations of three control variables, namely, (1) the industrial sector (with different market competition), (2) company size, and (3) privatization methods. In addition, we imposed two additional restrictions in our case study framework. First, companies needed to be large enough to guarantee the existence of formal corporate governance. Second, companies were all privatized after 1996 because of the last wave of privatizations in Spain began after 1996 with the "Modernization Program of the Public Sector." This program encouraged the privatization of efficient SOEs and focused on non efficient SOEs to prepare them for privatization.

Our primary data was collected from interviews with top managers (five top managers were interviewed in Endesa and four in Iberia). Interviews had a structured part (with questions explained below), open-ended areas for relating personal opinions and rich descriptions of the research topics. Data triangulation was achieved using other relevant internal documents (strategic planning documents, archives, memos, internal newspapers) and public information such as articles in the press, annual accounting statements, the Spanish Central Bank's database and reports from the Spanish Society of State-Owned Companies.

We followed three principles designed to provide constructive validity and reliability (Yin, 2003): using multiple sources of evidence, creating case study databases, and maintaining a chain of evidence. We overlapped data collection and analysis so that they became highly interactive processes. Staggering the volume of data was possible because we focused our attention on three variables: (1) the company's governance structure, (2) company strategies, and (3) managerial compensation systems. Thus, the collected data were tabulated based on which of our three areas of research they were related to. Then, we developed narrative descriptions with extensive graphs including information about each case that helped us organize the longitudinal data. Although we

developed initial interpretations of the data obtained, we also looked for additional data to confirm or invalidate these interpretations. Finally, we developed a cross-case pattern to look beyond the two individual cases and search for similarities.

Regarding specific measurements for our first variable, the company's governance structure, we used (Coles et al., 2001; Hsu, 2010): the existence of separate positions for the CEO and the chairperson of the board, board composition, and ownership structure and concentration. To analyze board composition, we classified members of the board using the approaches recommended by Baysinger and Butler (1985) and Rutherford and Buchholtz (2007). Those members who were engaged in a contractual relationship with the company were classified as insiders. Those board members who did not hold professional positions in the company were defined as outsiders. Regarding ownership structure and concentration, we used the percentage of corporate stock in the hands of major shareholders, that is, those who own more than 5 percent of the stock (ICON) (Tosi and Gomez-Mejia, 1989).

The second variable, company strategies, was measured according to the method used by Dess and Davis (1980). As these authors stated, classifying firm strategies into one generic Porter's typology (cost leadership, differentiation and focus strategy) is a valuable tool, but also implies an atomistic view of strategy because each firm is considered unique in all respects. Alternatively, Dess and Davis (1980) propose a new view that supports the recognition of commonalities among firms regarding the higher/lower importance of a set of strategic choices. This notion of strategic choices helps track the role that corporate governance (and firm ownership) plays in pursuing a purpose, making decisions and adopting competitive methods, all of them inherent in the concept of strategy (White and Hammermesh, 1981, pp. 216). Thus, managers had to score a total of 20 items (strategic choices) using a five-point Likert scale on which 1 implied a low level of relevance of the strategic competitive item and 5 indicated high relevance. As with other variables, each item refers to both the pre- and post-privatization periods.

The third variable, compensation design, was measured consistent with Gomez-Mejia (1992) and Gomez-Mejia and Balkin (1992), who distinguished between two basic compensation patterns,

namely, “algorithmic” and “experiential”. Algorithmic patterns use formal rules and procedures that make pay decisions routine and that apply uniformly across an entire organization, with minimal attention to mitigating circumstances, exceptions to the rule, and external contingency factors. Experiential patterns are more flexible and adaptive because they respond to varying conditions, contingencies, and individual situations. As with the previous variable, managers had to score 23 items (structured into 11 different dimensions) on a five-point Likert scale for both pre- and post-privatization periods. Questionnaire items were defined so that lower scores (from 1 to 3) would correspond to an algorithmic pattern and higher scores (from above 3 to 5) would correspond to an experiential pattern. Then, algorithmic and experiential pay patterns are two poles in a continuum.

Below, we provide a full detail report of governance structure, strategic orientation and compensation systems of our two case studies, Endesa and Iberia.

4.-THE FINDINGS: THE TWO-CASE STUDIES

The Endesa Case Setting

Endesa is the electricity market leader in Spain and one of the largest private electrical groups in the world. Actually, Endesa is the first Spanish vertically integrated electricity company, and the second Spanish gas company and telecommunications operator.

Endesa was privatized through four Public Offerings (POs) that were held in 1988, 1994, 1997 and, finally, 1998, with the state’s holdings in the company reduced over time to 75.6%, 66.89%, 25% and 3%. During this privatization period, European regulations caused the reduction of government intervention and openness to market liberalization. In fact, the passing of the Basic Law for the National Electrical Sector (LOSEN) in 1994 and the Electrical Protocol of 1996 introduced certain measures that opened up the market to competition, such as the reduction of entry barriers for electricity-generating activities or more options for the sale of electricity to third parties. Although a certain degree of free competition was introduced with these new Spanish laws, Endesa still faced the regulation of some of its activities at the end of 1998 (the

year of its privatization). Some published data (Spanish National Commission of Electricity: CNE, 2003) also show that in 2001 only 30% of the electricity consumed in the market was deregulated. However, important internal changes in the firm's management were initiated taking into consideration the new context toward the sector that was being developed.

Endesa's Governance Structure

The board size of Endesa was practically the same before and after the firm's privatization year, in 1998 (17 and 15 members, respectively), but there were qualitative changes. There was a substantial reduction of the turnover of board members with an average percentage of 61% before privatization and 6% after privatization. The firm's report on General Agreements for Corporate Governance in 2000 says that members of the board are chosen by the General Shareholders' Meeting according to the statutes of the company. In fact, there were three categories of directors in 2000: (1) two who had been professionally linked to the firm over the long term, (2) twelve members who were not employed by the corporation and were not affiliated with any supplier, client, bank or law firm of the organization, and (3) one member appointed by a bank. We presume that the bank's representation on the board protects its financial interest in Endesa. The number of outsider directors increased from 65% before privatization to 86% afterwards. Regarding to leadership structure, the positions of CEO and chair of the board were split between two different individuals after privatization.

Thus, there were changes to create a more diverse and independent board following the Olivencia Code of Good Governance that was approved by the Spanish stock market in 1998. This code illustrated the active efforts made by the Spanish government to promote further efficiency and transparency in the governance system and fit with requirements of convergence with the European Community (EC).

Besides the changes observed in terms of board characteristics (leadership structure and outsider representation), we analyzed the extent of government involvement in the appointment of board chairmen. In Endesa, this appointment took place in 1997, when the state was still the largest shareholder in the company. This board chairman was understood to be the "government's man"

in the company; he even proposed the names of the directors of the board (at that time, there were no objective legal criteria for defining an ‘independent’ director). This chair had no previous experience in the electricity industry but had worked with experts and politicians close to the incumbent conservative party in designing the privatization strategy for the new government. Thus, he was considered a quasi-bureaucrat whose most valuable assets were ‘public relations’ and ‘political’ skills.

With respect to the Endesa’s ownership structure, the ICON measurement fell in the firm from 66.95% to 15.22%, what represents the percentage of capital in the hands of important shareholders before and after privatization. The findings from Endesa case suggest that two important saving banks with at least 5% holdings of capital appeared after the firm's privatization: La Caixa and Caja Madrid. Other financial institutions also participated in Endesa’s capital with less than 5%: Banco Santander Central Hispano (BSCH) (3%) and Banco Bilbao Vizcaya Argentaria (BBVA) (2.7%).

Strategic Competitive Factors

Halfway through the nineties, from 1994 to 1998 and coinciding with the successive POs that led to the privatization of Endesa, the company strengthened its competitive position in the electrical sector. The company opted for diversification into other sectors that were experiencing growth and internationalization.

Since its privatization, Endesa started to operate more efficiently, with a management plan better geared toward achieving higher quality control and customer service. The most significant change in Endesa’s management was the board’s implementation in 1998 of a formal management-by-objectives (MBO) program for middle and top managers. This program was intended to stimulate the identification of management priorities (particularly financial ones) for the year, to direct managers’ actions toward those priorities, and to push everyone who remained with the company into a “higher gear”.

In the first year of the MBO implementation, the board of directors approved a set of criteria for evaluating managers. As the management pointed out, it seems that before 1998, evaluation was open, subjective, and often ad hoc, with much discretion given to the superior manager. In the years after 1998, the program evolved toward a simpler system focused on quantitative measures of performance. The importance given to these measures represent the new strategy formulated by the new board of Endesa.

Table 1 lists the average scores of the responses from interviewees regarding the twenty items about the strategic orientation of Endesa. The comparison of scores for the pre- and post-privatization period confirms that the weight or relative importance assigned by the Endesa's management to the different strategic factors changed considerably in the two periods (see figure 1). In fact, 12 out of the 20 strategic factors achieved the highest score (5) after privatization coming from quite low scores in the pre-privatization period. This is the case of items such as customer service (item 2) or competitive prices (item 6) both of them with a score of 2 (in a 5-point Likert scale) in the pre-privatization period; and items related to the new product development (item 1) and brand (item 9), both of them with an initial value of 3 in the pre-privatization period.

Table 1 insert here

Figure 1 insert here

Wilcoxon non-parametric tests suggest the existence of statistically significant differences between scores of most of the strategic factors before and after privatization (see table 2). Also, items with the lowest scores (1 in a 5-point Likert scale) and related to the range of products and services (item 7), innovation in marketing techniques and methods (item 10) and distribution channel control (item 11) increased considerably after privatization to achieve the highest scores (4/5) in the scale. Then, the strategy pattern of Endesa appears to change before and after privatization to push up the attention given to the market and customer services. According to the managers' opinion, these changes were made without increasing the prices of their products/services (item 16), which maintain a low score (1) before and after privatization. In fact,

the government was responsible for establishing the electricity rate to pay by clients. It could explain that the only way for the electric power firm to increase its efficiency (taking into account that their revenues were regulated) was focusing on the reduction of operational cost (item 3) and increase the attention put on training its human resources (item 5).

Table 2 insert here

The exception in this new strategic pattern of increasing the value of all the items is the specialization in geographical areas (item 14). This item 14 reduced its score from 5 to 3 after privatization (being the difference statistically significant). It could be explained because of the growth and internationalization of Endesa after privatization. In fact, Endesa entered in the French market acquiring 30% of SNET's shares in 2001. In the same year, there was an agreement for creation of a joint-company in which SONAE/Spinveste (a Portuguese industrial holding) and Endesa held a 50 % stake to supply electricity and services to eligible customers in Portugal. In March, 2002 Endesa purchased Elettrogen. This transaction allowed Endesa to enter into Italy's electricity market and also promoted the completion of its acquisition programme in the European generation business for the period 2001-2005. As the report of the French Economic Center (CERNA, 2003: 82) pointed out: *"From now on, Endesa's activity in generation in Europe will be mainly focused on consolidating its recently acquired positions and using them as a platform for the development of new initiatives in the electricity business"*. In fact, Endesa operates in the generation, transmission and distribution of electricity in Spain, Latin America and various parts of Europe, but the firm also operates in other businesses that include gas distribution, water treatment, telecommunication and new technologies.

Compensation Systems

The MBO programme described above included a new design of managerial compensation. Before 1998 Endesa offered managers two types of monetary rewards: (1) salary increases and (2) occasional bonuses awarded on a discretionary basis. Salary increases were based on adjustments for inflation according to the specifications of the national trade union. Bonuses were based on a subjective performance rating given by the manager's immediate superior, being

about 90% of the managers who received bonuses. Subjective performance ratings used to be high regardless whether managers deserved them or not. Thus, it is not surprising that managers expected to receive bonuses of as much as they had received the previous year. Bonus awards became fixed rather than contingent, and decisions not to provide bonuses for any specific year were controversial.

After 1998, the assigned percentage of compensation linked to the measures of the MBO was the following: 30% of the contingent compensation was based on achieving objectives of the business division; 30% of the contingent compensation was based on achieving global objectives of the Endesa group; and 40% of the contingent compensation was based on achieving personnel objectives. To some extent, it reflects the efforts made by the management to better performance and the increase of the firm's efficiency. The performance measurement and compensation initiatives introduced with the MBO programme helped to increase the board of directors' oversight and fostered greater accountability for achieving results in line with the new strategic objectives.

The analysis of the information provided by the interviewees suggests the existence of two relatively similar compensation models before and after privatization in Endesa (see table 3 and figure 2). However, all scores before privatization were lower than the midpoint of the scale (i.e., 3) with the exception of item 5 (a short-term versus long-term orientation). It indicates that the compensation system was algorithmic before the firm's privatization. After privatization, we noted an increase in the scores for all items. Only item 7 (the size of differences in pay for different levels of the hierarchy), item 8 (the communication of compensation policy versus secrecy) and item 10 (flexibility regarding the design of the compensation system) keep the same scores before and after privatization, that is 2.5, 2 and 3 respectively. In general, 8 out of 11 compensation dimensions show scores equal or higher than the central value of the scale after privatization, being statistically significant the differences of these scores before and after privatization (see table 4).

Table 3 insert here

Figure 2 insert here

These results may represent a tendency toward a more strategic or experiential compensation pattern after privatization with more emphasis placed on determining pay by individual skills instead of job definition (item 1) and the labor market (item 6). The fact that managers' salaries were benchmarked with those of managers in other companies in the same sector, reflects the greater discretion on the part of the board of directors after privatization to make strategic decisions based on an analysis of market and industry conditions.

Other compensation dimensions also increased at least in 1 point (in a 5-point Likert scale) after privatization: items 4, 5 and 11. It means that the firm increased the use of qualitative performance measures, combining them with quantitative ones (item 4); emphasized the long-term orientation vs. short-term in compensation (item 5); and increased the use of incentives to compensate managerial contributions to the organization (item 11).

Table 4 insert here

The Iberia Case Setting

Iberia is one of the major European network operators of air travel for both passengers and cargo, although its sphere of business also includes different related activities such as the distribution and the maintenance of aircraft owned by Iberia as well as those owned by other airlines.

The privatization of Iberia featured three phases: (1) direct sales in which the "industrial partners" were selected, (2) direct sales in which "institutional partners" were selected, and (3) a final phase in which privatization was completed through POs. These three phases transferred respectively 10%, 30% and 48.51% of the company stock, which had originally belonged to SEPI. The rest of the stock remained in the hands of the company's employees (6.1%) and in the hands of SEPI (5.4%).

With respect to the first phase involving industrial partners that took place in February 1999, a framework agreement was reached with American Airlines, British Airways, Iberia and SEPI

under which NEWCO (a company 90% controlled by British Airways and 10% controlled by American Airlines) committed to purchasing 10% of Iberia's stock. This trading operation constituted the first phase of the company's privatization.

Also in 1999, 30% of Iberia's stock was transferred; 10% of the shares went to Caja Madrid, 7.3% to the BBVA, 6.7% to Logista Aeroportuaria S.A., and 3% to Corte Inglés and the Ahorro Corporation S.A. respectively. Finally, in 2001 the third phase of privatization took place, during which the SEPI Board of Directors initiated a PO for the sale of 48.51% of Iberia's stock.

Iberia's Governance Structure

The board size of Iberia was practically the same before and after the firm's privatization year - in 2001-, from an average of 13 directors before privatization to 12 following privatization. In spite of the fact that changes do not exist in the board size, the company, as in Endesa, presents some qualitative changes in the board itself.

Regarding director turnover rates, we observe a high change in this metric. Specifically, the company changed from an average turnover rate of 43% before privatization to 8% following privatization. In this sense, we have to point out that the decrease was mainly due to the elevated turnover rate during the years leading up to total privatization. The entry of the above mentioned institutional and industrial stakeholders in the company supposed a reconfiguration of boards in order to represent their interests.

With regard to board composition, our analysis indicates a change if we compare pre and post period of privatization. Outsiders filled an average of 92% of board positions during the pre-privatization period, and this figure increased to 83% after privatization. After privatization, the board was composed by 12 members, of which 2 were inside directors and 10 outside directors – 6 were representing the main shareholders. Specifically, 2 represented British Airways and American Airlines, 1 to Logista Aeroportuaria S.A, 1 to BBVA, 1 to Caja Madrid and 1 to Corte Inglés.

With regard to leadership structure of the company, we observed that in Iberia the CEO and chairman positions were held by the same individual in both periods -before and after privatization-.

Although no changes were observed in terms of leadership structure, we have to highlight the extent of government involvement in the appointment of board chairman. In 1996 (when Spain's Conservative Popular Party came to power), a new CEO was named in Iberia with the aim of leading the privatization of the company -he remained in the position until 2003-. The new CEO began in-depth processes of restructuring and reorganizing the business of the company to make it profitable and thus attractive to future investors. In those seven years, Iberia's privatization was completed and the company was thoroughly modernized and overhauled, becoming more client-focused.

With respect to Iberia's ownership structure, the ICON measurement shows an elevated concentration of capital before privatization (92.18%). This is reasonable because before privatization, all or a large fraction of the shares in the company was the property of the state. Following privatization, although the concentration of capital fell, the average percentage in the hands of important shareholders continued to be high, reaching almost 40%. We note the existence of 'core' shareholders such as financial institutions that hold a sufficiently high proportion of a company's shares. This seems to imply some degree of control over the board in contrast to the dispersed shareholding and 'free-rider' dynamics of state-owned companies. The findings show the presence of financial institutions with at least 5% holdings of capital. Specifically, in Iberia two financial institutions held 17.75% of the capital (Caja Madrid 9.84% and BBVA 7.91%).

Strategic Competitive Factors

Related to the strategy followed by Iberia, at the beginning of 1997 the company started a strategic plan (Annual Report, 1997), which remained in force until 1999, with a view to its nearby privatization. The essential aim of the above mentioned plan was to consolidate the profits of Iberia and to achieve levels of profitability that could guarantee its access to capital markets

and that could project an attractive image of the company to potential investors. In the first year of application of this plan, the profits overcame 84 million euros, which supposed quintupling what had been achieved in the previous year and duplicating even the forecasts.

With regard to the strategy that Iberia followed after privatization, one of the most important events was the implementation of a new strategic plan, which remained in force until 2003. The plan was mainly focused on market consolidation and the improvement of corporate financial and operating profitability ratios to secure greater shareholder value. This new plan gave priority to aspects such as reinforcing leadership in the strategic markets of the company, leading the development of new technologies and improving client satisfaction and the utilization of resources. Additionally, the development of alliances and cost reduction were important objectives assumed by the firm to increase competitiveness. All of the above mentioned aspects were accompanied by a series of commercial, financial and organizational measures. This way, the board of directors of Iberia passed a new model of organization in 2001 (Annual Report, 2001). This measure supposed the creation of affiliated companies and profit centers that would assume the management of the different businesses of the company, such as transport, aircraft maintenance and the services of attention in airports.

The information provided by some executives of the company reflects the changes produced in firm strategy once the company passed into private hands. The CEO pointed, “... *Privatization made the firms feel freer. This inspired strong investments both nationally and internationally, with the aim of expanding the company and operating in global markets* ”. Other executive said, “... *the most important change provoked by privatization was the rethinking of the criteria used to guide strategic decision making. These criteria shifted from being linked to political aims to being related more to the firm’s efficiency, profitability and competitiveness in the market ...* ”

Our comparison of scores for the pre- and post-privatization periods confirms that the weight or relative importance assigned by the management to the different strategic factors is quite similar in the two periods (Table 1). Following Wilcoxon test’s results, we find no change in the strategic pattern of the company (Table 2). However, although Iberia does not change its strategic orientation, we can observe in figure 3, that the company does increase their emphasis on

strategic factors after privatization. We systematically observed higher scores across all items (with the exception of item 13 – “minimize the use of external financial support”) after privatization.

Figure 3 insert here

One of the competitive factors on which the company emphasized more after privatization was the improvement of competitiveness in prices (item 6). Specifically, in the year 2001, the company started a system of definition, follow-up and control of prices that allowed to work with their own rates and of the competitors in real time. On the other hand, Iberia also put emphasis on innovation both in processes and in services after the privatization (item 20). Among others, we can emphasize the technological improvements of the processes of handling in airports; processes to improve the communication with clients; development of business tools to create a new service of electronic check in, and the optimization of the process of price management.

Related to the customer service (item 2), the company raised the punctuality of its flights up to 83.8 %, 8.4 points over the average of the previous year, placing itself as the European company with better punctuality according to the Association of European Airlines (AEA) [Annual Report, 2003]. This achievement was possible due to the development of the Integral Plan of Improvement of Punctuality, whose function was to anticipate and detect the possible reasons for delay, as well as to seek and analyze new initiatives which allowed to improve the procedures and the coordination of operations. The important improvement of punctuality led to diminish the operative costs and indemnifications, and to increase the satisfaction of clients.

Another decision taken was the Plan of Renovation of Fleet, with an investment higher than 3,600 million euros. This Plan allowed to offer more comfort and new services to passengers, and to reduce the number of different types of aircrafts. All these supposed an increase of the productivity of the crews and the decrease of the operative unitary costs (item 3).

After privatization, the company also made an effort on aspects related to the geographical specialization (item 14). In this sense, the company improved its competitive position in Europe

with a share quote of 34.5% and it maintained its leadership in the domestic market with a share quote of 70.4%, as well as in the intercontinental traffic with a share quote of 15.1% in European-Latin American air traffic. Note that the company was the market leader with a share quote of 44.5% in Spanish-Latin American air traffic.

It is also necessary to highlight the alliances developed by the company after the privatization. For example, in 2003, Iberia signed an agreement with British Airways (Corporate Social Responsibility Annual Report, 2003), which allowed to coordinate and to integrate the commercial strategies and marketing, practices and distribution procedures of both companies.

All the decisions above mentioned had a positive impact on the shareholders. In 2003, Iberia fulfilled its aims of profitability and quality improvement, turning it into one of the strongest airlines with the most value to their shareholders. The company obtained a net profit before taxes of 201.7 million euros in 2003, improving in 7.6 million the profits of the previous year.

To understand the strategic decisions previously mentioned, the regulation evolution in the air sector should be taken into account. In this respect, it is necessary to emphasize the activities toward liberalization of the sector carried out in the European area before the privatization of Iberia. These measures were taken in the period 1987-1997 (Button, 2001). In 1997 the liberalization of the air transport in the European Union was completed, raising the last barriers in the accomplishment of domestic flights by non-national companies. Nevertheless, the sector experienced its higher revolution from 1993, when the companies that were operating in Europe started to operate in a more competitive context. These actions towards liberalization forced Iberia to be more competitive and to pay more attention to the market, before the company went to private hands. For this reason, although the company increased the emphasis in the strategic factors after privatization, the pattern of the strategy followed was similar in both periods.

Compensation Systems

The analysis of the results suggests the existence of two relatively similar compensation models before and after privatization (Table 3, Figure 4). However, the majority of scores before

privatization were lower than the midpoint of the scale (i.e., 3), which indicates that these compensation systems were algorithmic. After privatization, we noted an increase in the scores for the majority of items. Thus, although the scores are still quite close to the central value, they are slightly higher than the scores prior to privatization.

Figure 4 insert here

These results may represent a slight tendency toward a more strategic or experiential compensation pattern after privatization. Although there are no significant differences on compensation dimensions in both periods of time (see Table 4), after privatization we note an increase, in the extent to which pay is determined by the labor market (dimension 6). In this sense, we highlight that in 2003 Iberia revised the programs of managerial remuneration with external experts (Corporate Governance Annual Report, 2003). The aim was to give major coherence to the remuneration of the company in comparison with others companies of the sector.

The results also present a tendency to increase the degree of managerial participation in setting compensation policy (dimension 9). To this regard, we point out the hard negotiations took place with the pilots of the airline in 2001. In such negotiations the pilots were looking for major participation on compensation system design. On the other hand, in 2004 Iberia approved a compensation plan which incorporated stock options for the top managers of the company.

However, the scores along dimension 4 (compensation based on quantitative- qualitative measures) appear to contradict this shift toward more contingent compensation after privatization. According to Gómez-Mejía and Balkin (1992), the algorithmic model bases compensation on quantitative measures, whereas the experiential model also considers qualitative aspects of performance. A pre-privatization score of 3.17 along dimension 4 implies that both qualitative and quantitative criteria were used, but the post-privatization score of 2.33 implies that the quantitative criteria outweighed the qualitative criteria, meaning that before privatization, the compensation model was more experiential.

In sum, the analysis of the results emphasizes that the compensation system of the company did not present significant changes after privatization. This could be because the company had a compensation system adjusted to the competitive conditions of the market before the privatization.

5.-DISCUSSION OF FINDINGS: IS THERE A COMMON PATTERN BETWEEN ENDESA AND IBERIA?

A deep analysis of the information shows similarities and differences between two case studies on three areas of interest –corporate governance, strategy and compensation systems.

Related to corporate governance, we observe several issues. Firstly, the companies maintain the same number of directors once they are privatized. Secondly, the results of both companies showed a decrease of director turnover after privatization. Nevertheless, such decrease produced in Endesa was higher than in Iberia. Specifically, Endesa’s turnover ratio changed from 61% before to 6% after privatization, while in Iberia it changed from 43% before to 8% after privatization.

Third, regarding the presence of outside directors on boards, two companies showed opposite situations. In the case of Endesa, outsiders increased from 65% to 86%. However, Iberia reconfigured its board to include a lower percentage of outsiders after privatization (83%) in comparison to the period before privatization (92%).

Fourth, with regard to leadership structure of the company, we also observed differences between Endesa and Iberia. In Endesa, the positions of CEO and chairman were taken by two different individuals once the company was privatized. In contrast, in Iberia, the CEO and chairman positions were held by the same individual in both periods -before and after privatization-. However, we have to highlight the extent to which the government was involved in the appointment of board chairman for both companies. In fact, the Spanish government decided to retain temporary “golden shares” in both firms (they expired in 2006 for Iberia and in 2008 for Endesa) which means that they delegated the right to veto in certain strategic decisions and in blocking foreign shareholding to the state.

Taking into consideration the characteristics of the boards mentioned above, we could assert that Endesa shows a more independent board than Iberia after privatization. According to agency theory this higher board independence should lead to increase the control function of the board of directors over managers.

Finally, and regardless the privatization method employed (e.g., direct sales, POs, issuing of bonds and so on), we note that the public sector ownership position was largely replaced with a dual ownership structure. On the one hand, most of the equity of two privatized firms was in the hands of institutional or industrial investors who composed a “hard core”. These hard-core groups are generally well-known entities. They purchased the shares but had to agree that they would not transfer the stock. This was a state-mandated stipulation intended to guarantee a certain stability in the composition of the firm’s capital. On the other hand, the involvement of minority shareholders was encouraged in the newly privatized firms. This is consistent with the government objective of promoting “popular capitalism”. In fact, security market law reforms were approved in 1998 to stimulate activity in the Spanish stock market (historically small and geographically segmented) and help to develop a small investor culture (Aguilera, 2005, pp. 206).

Then, although the concentration of capital fell down after privatization in both firms, the average percentage in the hands of important shareholders continued being high in Iberia (reaching almost 40%), in comparison with Endesa (15.22%). The main shareholders were financial institutions in Endesa while in Iberia we observed the presence of different types of shareholders –industrial shareholders, financial institutions and non financial institutions). In this sense, the profile of the shareholders could determine the way of managing both companies. In Iberia, the experience and knowledge of the air sector of British Airways and American Airlines helped to introduce changes in the way the company was managed right before the whole firm’s privatization took place. In fact, the role of these shareholders was critical to consolidate the market position of Iberia in the air sector, which had been completely deregulated and highly competitive right before the firm’s privatization.

This issue could explain the differences in the strategic pattern found in both firms after privatization. Our findings show that the strategies followed by the two privatized companies

have favored their expansion and internationalization. The firms initiated certain changes to their strategies to pursue their new owners' objectives once they fell under private ownership. In the case of Endesa, its strategy was also focused on diversification as the firm entered in new businesses. Besides, a common aspect on both firms was their concern with firm's efficiency and the reduction of operational costs following privatization. The emphasis on competitive factors related to marketing and customer services also increased in both firms after privatization. So, attention to the development and improvement of existing products and services, innovation in marketing techniques or the distribution channel control gained importance in both firms after privatization. However, these changes were higher for Endesa than for Iberia. In fact, 12 out of the 20 strategic factors analyzed achieved the highest scores (value 5) in Endesa after privatization. The scores given to these same items in the case of Iberia also increased, but differences (with pre-privatization period of time) were not statistically significant. We should note the different context in which the companies were operating. Endesa's privatization occurred in a regulated market, then once the firm was privatized many changes were produced towards deregulation of certain activities. In an opposite case, Iberia's privatization occurred in a market that just enjoyed of higher levels of liberalization and competitiveness. Therefore, the starting point was different for both firms, and drastic changes observed in Endesa's strategy could be due to the new context and higher competition that the firm had to cope with after privatization.

Finally, and regarding the compensation system, our results also show differences between Iberia and Endesa. In Iberia, there seems to be a tendency to increase the extent to which pay is determined by the labor market and the degree of managerial participation in setting compensation policy after privatization. However, these changes were slight and were not statistically significant in Iberia. In contrast, in Endesa there is a significant increase in most of the compensation system dimensions. Specifically, there is a tendency to increase: pay determined by job definition vs. individual's skills (item 1), a higher long-term vs short-term orientation (item 5), salaries benchmarked with labor market (item 6) and incentives vs. fixed pay (item 11), among others. In sum, whereas in Iberia there were no significant changes in compensation system after the privatization, in Endesa there was a clear tendency to go from an algorithmic to an experiential compensation pattern. It makes sense taking into consideration the

changes occurred in Endesa's strategy after privatization. The high competition faced by Endesa after its privatization forced the firm to introduce a new orientation in the firm's management that was operationalized through a radical new strategy and it was fit with a new compensation system design. Contrary to Endesa's case, the market in which Iberia operated before privatization was already competitive and there were not necessary changes in the firm's management to adapt it to the context after privatization.

6.-CONCLUSIONS

In this research, we analyzed the firm corporate governance and internal management (firm strategy and compensation system) after firm privatization. Although privatization has been widely analyzed, most studies have adopted a macroeconomic or political perspective, whereas we adopted an organization-level approach to develop a comprehensive research framework that allowed us to analyze these phenomena in depth. Our findings highlight some important conclusions to the existing literature in the three areas analyzed: corporate governance, strategy and compensation system.

Regarding corporate governance, and based on agency theory, we predicted that privatization would provoke a change in owners' interests, with subsequent changes in the boards of directors to support the interests of the new ownership. However, our empirical findings suggest that privatization not always implies more independence of the board of directors. In fact, in Iberia, the chairman and CEO positions were filled by a single individual after privatization.

We also observed that privatization does not necessarily lead to an increase in the number of outsiders on the board. In this sense, the two companies analyzed showed opposite situations after privatization. While in Endesa the presence of outside director increased after privatization, Iberia reconfigured its board to include a lower percentage of outsiders. We note a third issue regarding corporate governance, the concentration of shares after privatization, a characteristic that has been suggested as typical of the so-called Latin corporate governance model (Aguilera, 2005). In fact, financial institutions that held more than 5% of the capital appear after privatization in both analyzed companies, with representatives having a seat on the board.

Taking into account the aspects mentioned above, we cannot entirely accept our proposition that boards of privatized firms become more independent after privatization. Although previous international works found that companies from 18 different countries changed the size and composition of corporate boards after privatization (Megginson et al., 1994), it seems necessary to analyze the idiosyncrasy of each specific nation to understand these changes. Then, our first conclusion is that specific characteristics of the institutional context and corporate governance system of each country could shed light on the adjustments made in the boards' configurations of privatized firms. In this line, several studies have been conducted to investigate what the determinants of boards' characteristics are after privatization in others contexts such as Canada (Bozec et al., 2004), Egypt (Omran 2009) or Russia (Peng et al., 2003).

Regarding firm strategy, we predicted that a clear effort to specify and define firm strategy would take place after privatization to align the interests of the new ownership with the management ones. Our findings show that once both companies were privatized, more emphasis was placed on specific factors related to customer services, efficiency and reduction of operational costs. Besides, attention to the development and improvement of existing products and services to offer a wide range of them, innovation in marketing techniques or the distribution channel control gained relevance in both firms after privatization. We should notice that although some differences exist in the new ownership structure of the two analyzed firms, a common characteristic in both of them was the presence of major financial blockholders. Then, a second conclusion from this research is that the firm's strategy of privatized firms becomes clearly defined and linked with the objectives and interests of the profile of the new shareholders.

These results are consistent with those of studies carried out in other countries. For instance, Ghobadian and Viney (2002) concluded that privatized companies showed a certain degree of variation in the direction of their strategic content at a corporate level, although the degree of variation was not particularly pronounced. Similarly, Nestor (2005) found that privatization provoked both a depoliticizing of the decision-making process and a stronger link between the strategies followed by the company and owner objectives. Other studies –such as those by Goydke (2009) and Voges et al., (2009) – have also shown that companies adopt certain strategic changes (e.g., a better market orientation) once companies are privatized.

However, these strategic changes were higher for Endesa than for Iberia. In this sense, we should note the different contexts in which the companies were operating. Endesa's privatization occurred in a regulated market, then once the firm was privatized, many changes were produced towards deregulation. In an opposite case, Iberia privatization occurred in a market with higher levels of liberalization and competitiveness. Therefore, our third conclusion is that the market is a variable that moderates the intensity of changes occurred in the strategy of privatized firms.

Besides, we predicted from an agency framework that a higher use of incentive alignment occurred after privatization. However, our findings regarding compensation systems suggest that privatization itself does not lead to a clear tendency to adopt a more experiential compensation pattern. In this sense, we find differences between the two companies analyzed. In Endesa, there is a tendency to adopt a compensation system that is more contingent on performance, more risk sharing and with more emphasis on global versus unit performance related to compensation. Also, an increased emphasis on the extent to which pay was determined by the labor market was encouraged. These results regarding compensation systems' design after privatization are consistent with those of other works developed in other international contexts. For instance, Cragg and Dyck (2000) found that top management compensation was more bureaucratic in SOEs (i.e., there was no pay for performance, and there were no systematic age-related pay increases) than in privatized firms in the United Kingdom, where top manager pay for performance increased after privatization. Other studies in Britain provide evidence of the increase in executive compensation after privatization in the electricity industry (Wolfram, 1998). Chalhoub (2007) also reports a better definition of managerial incentives after privatization in the French automotive industry, which leads to better firm performance. However, in Iberia, there were not significant changes in compensation system after privatization. It could be explained considering that neither strategic changes were taken. It seems that compensation systems and strategic systems were coherently fixed before privatization regarding the context in which the firm was operating.

Then, our final conclusion is that compensation systems seem to be an internal governance mechanism useful for the board to translate ownership's objectives to the firm management.

When changes were introduced in the firm's strategy, they were clearly turned into a new compensation design, what makes more explicit the new firm's interests.

Overall, this research clearly contributes to the literature providing a comprehensive framework to analyze the internal management changes of privatized firms. We highlight the relevance of certain contingent variables not considered by agency theory that can help to explain these changes. In this sense, we defend that one external contingent variable, the regulatory framework of the sector in which firms operate, becomes crucial to explain changes not only in the corporate governance but in the firms' internal management after privatization. Specifically, the deregulation and liberalization of the sector can force the firms to adopt a radical change of its strategies and simultaneously, to cause changes on the design of its compensation systems toward a more strategic or experiential pattern after privatization. Our research has also pointed out the necessity of more studies in order to understand another contingent variable: the role played by different kinds of blockholders on firm management in a privatization context. Moving away from the standard agency theory treatment of shareholders to distinguish between atomistic investors with no influence over management or concentrated ownership, we claim that future research lines should consider the influence exerted by different stockholders in the boardroom through the nomination of directors who represent their interests.

This research has some limitations. Although we investigated the effects of corporate governance on internal management issues, we failed to address the influence of these changes on firm efficiency after privatization. Also, our results and conclusions cannot be generalized to other contexts, as we focus our analysis in the Spanish case.

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Table 1. Strategic competitive factors before and after privatization

	Endesa		Iberia	
	Before	After	Before	After
1. New product development	3.00	5.00	3.00	4.00
2. Customer service	2.00	5.00	3.33	5.00
3. Sustained effort toward cost reductions	4.00	5.00	3.67	5.00
4. Quality control of products/services	5.00	5.00	4.00	4.33
5. Training and experience building of human resources	4.00	5.00	3.67	4.00
6. Competitive prices	2.00	5.00	3.33	4.33
7. Wide range of products and services	1.00	4.00	2.33	3.00
8. Development and improvement of existing products and services	5.00	5.00	3.00	3.67
9. Brand	3.00	5.00	4.00	4.00
10. Innovation in marketing techniques and methods	1.00	4.00	2.67	3.67
11. Distribution channel control	1.00	5.00	3.33	4.00
12. Raw materials for products and services	5.00	5.00	3.33	3.67
13. Minimization of the use of external financial support	3.00	3.00	3.00	2.00
14. Specialization in geographical areas	5.00	3.00	2.67	4.33
15. Ability to make specific products and services	4.00	4.00	3.00	3.67
16. High-priced products and services in the market	1.00	1.00	3.00	3.00
17. Promotion and marketing in the media from other companies in the sector	2.00	4.00	2.67	2.67
18. Reputation within the sector	4.00	4.00	2.67	4.33
19. Foresight of market growth	5.00	5.00	3.33	4.00
20. Process Innovation in products and services	5.00	5.00	2.67	3.67

Table 2. Wilcoxon non-parametric test for Strategic Competitive Factors

		Endesa	Iberia
		After privat.-Before privat.	After privat.-Before privat.
Strategic factor 1	Z	-2.000	-1.342
	Asymp. Sig. (2-tailed)	.046	.180
Strategic factor 2	Z	-2.000	-1.633
	Asymp. Sig. (2-tailed)	.046	.102
Strategic factor 3	Z	-2.000	-1.633
	Asymp. Sig. (2-tailed)	.046	.102
Strategic factor 4	Z	.000	-1.000
	Asymp. Sig. (2-tailed)	1.000	.317
Strategic factor 5	Z	-2.000	-1.000
	Asymp. Sig. (2-tailed)	.046	.317
Strategic factor 6	Z	-2.000	-1.732
	Asymp. Sig. (2-tailed)	.046	.083
Strategic factor 7	Z	-2.000	-1.414
	Asymp. Sig. (2-tailed)	.046	.157
Strategic factor 8	Z	.000	-1.414
	Asymp. Sig. (2-tailed)	1.000	.157
Strategic factor 9	Z	-2.000	.000
	Asymp. Sig. (2-tailed)	.046	1.000
Strategic factor 10	Z	-2.000	-1.342
	Asymp. Sig. (2-tailed)	.046	.180
Strategic factor 11	Z	-2.000	-1.414
	Asymp. Sig. (2-tailed)	.046	.157
Strategic factor 12	Z	.000	-1.000
	Asymp. Sig. (2-tailed)	1.000	.317
Strategic factor 13	Z	.000	-1.342
	Asymp. Sig. (2-tailed)	1.000	.180
Strategic factor 14	Z	-2.000	-1.633
	Asymp. Sig. (2-tailed)	.046	.102
Strategic factor 15	Z	.000	-1.414
	Asymp. Sig. (2-tailed)	1.000	.157
Strategic factor 16	Z	.000	.000
	Asymp. Sig. (2-tailed)	1.000	1.000
Strategic factor 17	Z	-2.000	.000
	Asymp. Sig. (2-tailed)	.046	1.000
Strategic factor 18	Z	.000	-1.633
	Asymp. Sig. (2-tailed)	1.000	.102

Strategic factor 19	Z	.000	-1.414
	Asymp. Sig. (2-tailed)	1.000	.157
Strategic factor 20	Z	.000	-1.732
	Asymp. Sig. (2-tailed)	1.000	.083

Table 3. Compensation systems before and after privatization

	Endesa		Iberia	
	Before	After	Before	After
1. Pay determined by job definition vs individual's skills	2.08	3.67	2.67	3.00
2. Risk sharing	3.00	3.33	3.22	3.44
3. Emphasis on global vs unit performance	3.00	3.33	3.11	3.33
4. Use of quantitative versus qualitative performance measures	2.00	3.00	3.17	2.33
5. Short-term versus long-term orientation	4.00	5.00	2.17	2.50
6. Extent to which pay is determined by the labor market	2.00	4.00	2.00	4.00
7. Size of differences in pay for different levels of the hierarchy	2.50	2.50	3.00	3.00
8. Communication of compensation policy versus secrecy	2.00	2.00	1.50	1.67
9. Degree of managerial participation in setting compensation policy	1.00	1.50	1.67	2.33
10. Flexibility regarding the design of the compensation system	3.00	3.00	1.67	2.33
11. Fixed pay versus incentives	2.00	3.00	2.67	3.00

Table 4. Wilcoxon non-parametric test for Compensation Dimensions

		Endesa	Iberia
		After privat.-Before privat.	After privat.-Before privat.
Dimension 1	Z	-1.890	-1.000
	Asymp. Sig. (2-tailed)	.059	.317
Dimension 2	Z	-2.000	-1.414
	Asymp. Sig. (2-tailed)	.046	.157
Dimension 3	Z	-2.000	-1.414
	Asymp. Sig. (2-tailed)	.046	.157
Dimension 4	Z	-2.000	-1.342
	Asymp. Sig. (2-tailed)	.046	.180
Dimension 5	Z	-2.000	-1.414
	Asymp. Sig. (2-tailed)	.046	.157
Dimension 6	Z	-2.000	-1.604
	Asymp. Sig. (2-tailed)	.046	.109
Dimension 7	Z	.000	.000
	Asymp. Sig. (2-tailed)	1.000	1.000
Dimension 8	Z	.000	-1.000
	Asymp. Sig. (2-tailed)	1.000	.317
Dimension 9	Z	-2.000	-1.633
	Asymp. Sig. (2-tailed)	.046	.102
Dimension 10	Z	.000	-1.414
	Asymp. Sig. (2-tailed)	1.000	.157
Dimension 11	Z	-2.000	-1.000
	Asymp. Sig. (2-tailed)	.046	.317

Figure 1. Strategic competitive factors before and after privatization. Endesa

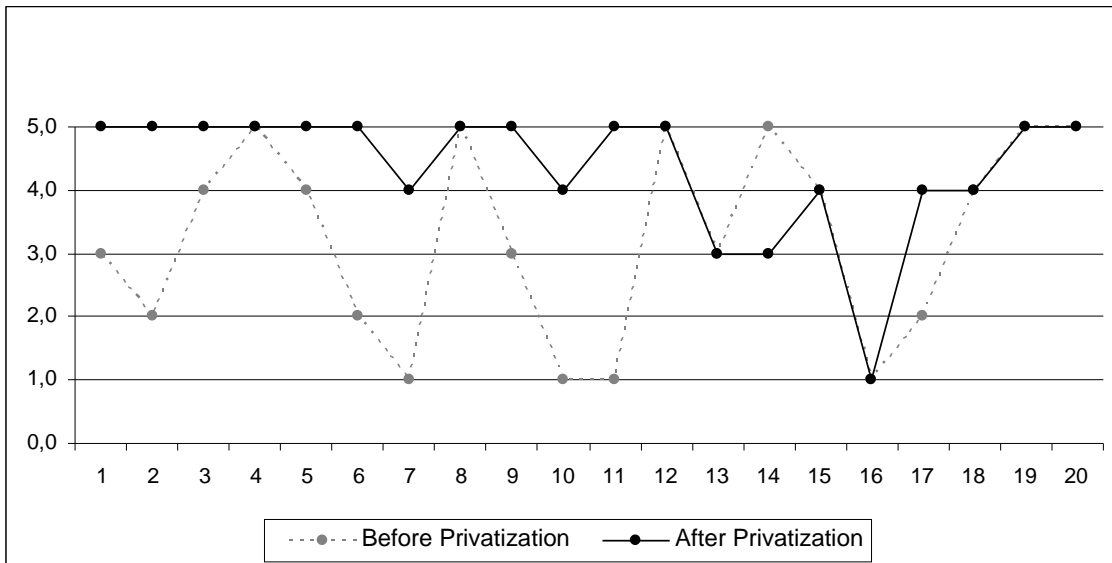


Figure 2. Compensation patterns before and after privatization. Endesa

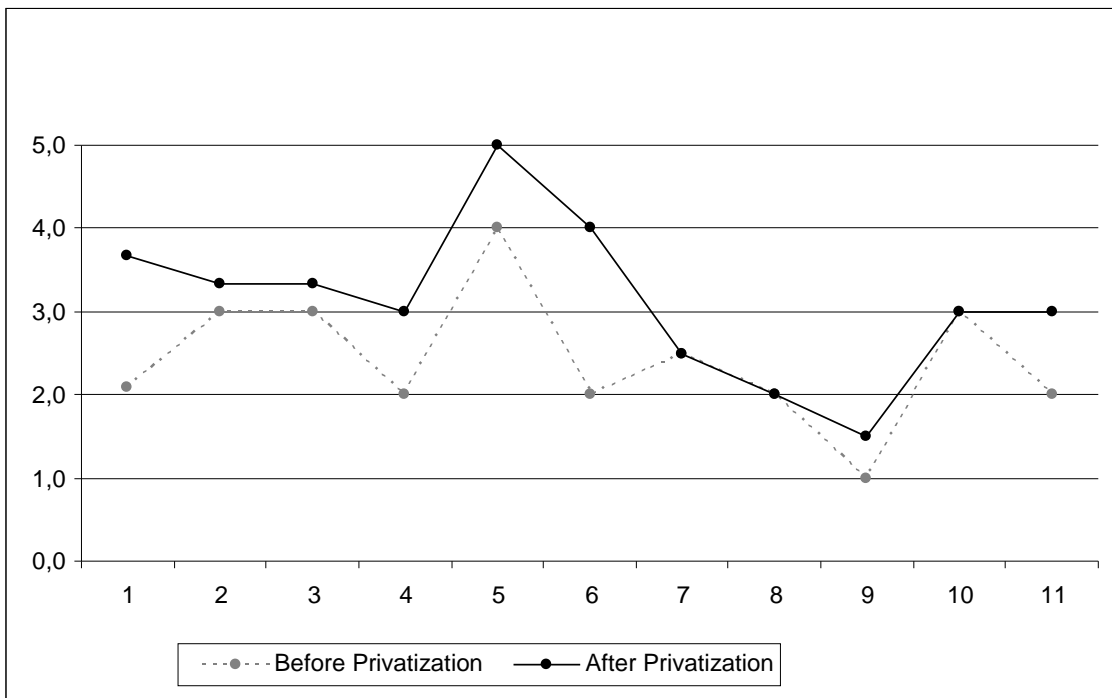


Figure 3. Strategic competitive factors before and after privatization. Iberia

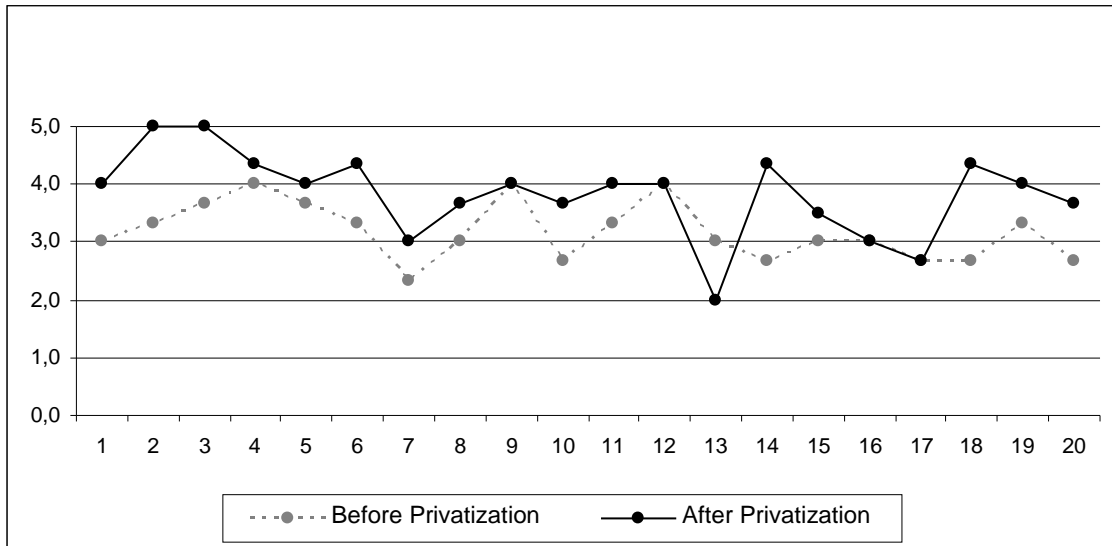


Figure 4. Compensation patterns before and after privatization. Iberia

