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Management Buy-Outs from the Public Sector: Ownership Form and Incentive Issues

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Management Buy-Outs from the Public Sector: Ownership Form and Incentive Issues

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I. INTRODUCTION

'Does ownership matter?', asks the title of a recent commentary on the privatisation debate (Yarrow, 1989). The author reviews the available evidence and concludes that it does only in so far as privately-owned firms outperform state enterprises under *competitive* market conditions.[1] Remove the spur of product market rivalry and the welfare consequences of a shift to private ownership appear ambiguous: the greater profit orientation of such ownership may reduce allocative efficiency by more or less than it raises internal (i.e. operating) efficiency. Add in non-trivial disposal costs (see Bishop and Kay (1988)) and continuing concern over the adequacy of market regulation[2] when public monopolies are sold off, and it is scarcely surprising that the UK privatisation programme is proving controversial.

However, one important aspect of the private versus public ownership question has largely escaped scrutiny in the debate: namely the *form* of private firm used to acquire the divested state assets. Most discussion appears to assume, explicitly or implicitly, that privatisation involves stock market flotation and the creation of a dispersed ownership PLC. This focus of

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[1] See also Vickers and Yarrow (1988, pp. 45–77) for a more extensive treatment.

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