Introduction

This chapter’s aim is to examine theories of the relationship between the public and private sectors. The main purpose is to draw out the empirical implications of theory for assessing the performance of private versus public enterprises. As a general procedure, their strengths and weaknesses will be discussed. Specifically, the aim is to find out whether and how they are useful for measuring corporate performance.

A dramatic change has occurred in industrial policy in most European countries from the beginning of the 1980s. The change has led to a significant shift towards private ownership in many different industrial sectors. Also, a new era has begun in the relationship between the private and the public sectors. Minimising the size of the public sector and reducing the role played by the state in the economy have become policy goals for most governments in nearly all parts of the world. In order to implement this movement, privatisation has played a significant role.

Privatisation is not a simple matter of transferring ownership from the public to the private sector. This simplistic view is misleading and does not take into account many aspects of this type of economic action (Veljanovski, 1987). As Veljanovski (1987: 77) stresses from his own property rights perspective, ‘privatisation involves much more than simple transfer of ownership. It involves the transfer and redefinition of a complex bundle of property rights which creates a whole new penalty–reward system which will alter the incentives in the firm and ultimately its performance.’
benchmark for its legitimacy and usefulness have changed from that of the early 1980s. Current thinking has moved from a position in which differences in performance derive solely from differences in ownership to one that considers the measurement of performance irrespective of ownership. An increase in market competition has been regarded as more important than change in ownership for improving performance and efficiency (Cook and Kirkpatrick, 1995). Empirical studies purport to show that market competition is the catalyst for economic efficiency that is to be achieved under either public or private ownership (Millward, 1988).

What is revealed by this simple shift in understanding of the determinants of public/private sector is that ownership as such is not the only important factor but, by the same token, why is only one further factor – competition – considered? Of course, regulation, whether of private or public, was soon to follow. But why stop here rather than adding each and every factor that may or may not contribute to economic performance over and above that of ownership (itself liable to be too crudely seen as the simple dichotomy of public and private, with many different forms within each of these broad categories)?

This all suggests that a deeper point is involved, and the theory of public/private sector performance inevitably depends upon a more general stance on economic theory – a conception of how the economy functions ranging from methodology at one extreme to which factors are included or excluded at the other. Consequently, the treatment of public/private sector performance is liable to be generally influenced by prevailing economic theory. At the time that privatisation came to the fore as a policy in practice, the new information-theoretical approach to microeconomics was also emerging. Indeed, as in many other areas, privatisation has served as a convenient application for the theory of market imperfections and asymmetric information. It becomes a principal–agent problem as Fine (1997a: 8) stresses, ‘privatisation proved a natural application, even though such factors are far from being its sole nor most important determinants’.

Further, quite apart from privatisation being interpreted within the current fashions attached to economic theory, there is an influence in the opposite direction. Privatisation itself offers a topic to be addressed and so does its experience in practice as it evolves. Thus two main features have characterised the whole issue of privatisation. As Fine (1997b: 376–7) stresses:

first, the issue of privatisation has been interpreted within the existing fashions of the discipline. This has involved the new microeconomics