Privatization and innovation: evidence from the airport industry

University of Auckland, Antje Fiedler

Overview

- Introduction
- Clarification of key terms
- Theoretical framework
- Selected cases
- Q & A

Why do governments privatize?

→ Enhance allocative & productive efficiency

Incentives for cost & quality innovation

Privatization includes:

- Deregulation (opening markets to competition)

  → market & institutional environment

- Transfer of state-owned assets to the private sector

  → property-rights

Institutional and market environment

Institutions

- Institutions are formal and informal rules that influence, enable or constrain human behaviour (North, 2005)

- Created by human agency

- Incentive structure of society ⟶ incentives for innovation

Market environment

- According to Baumol (2002): market mechanism is the key to economic welfare

- Institutions foster free-market pressure (competition)

⟶ force firms to innovate
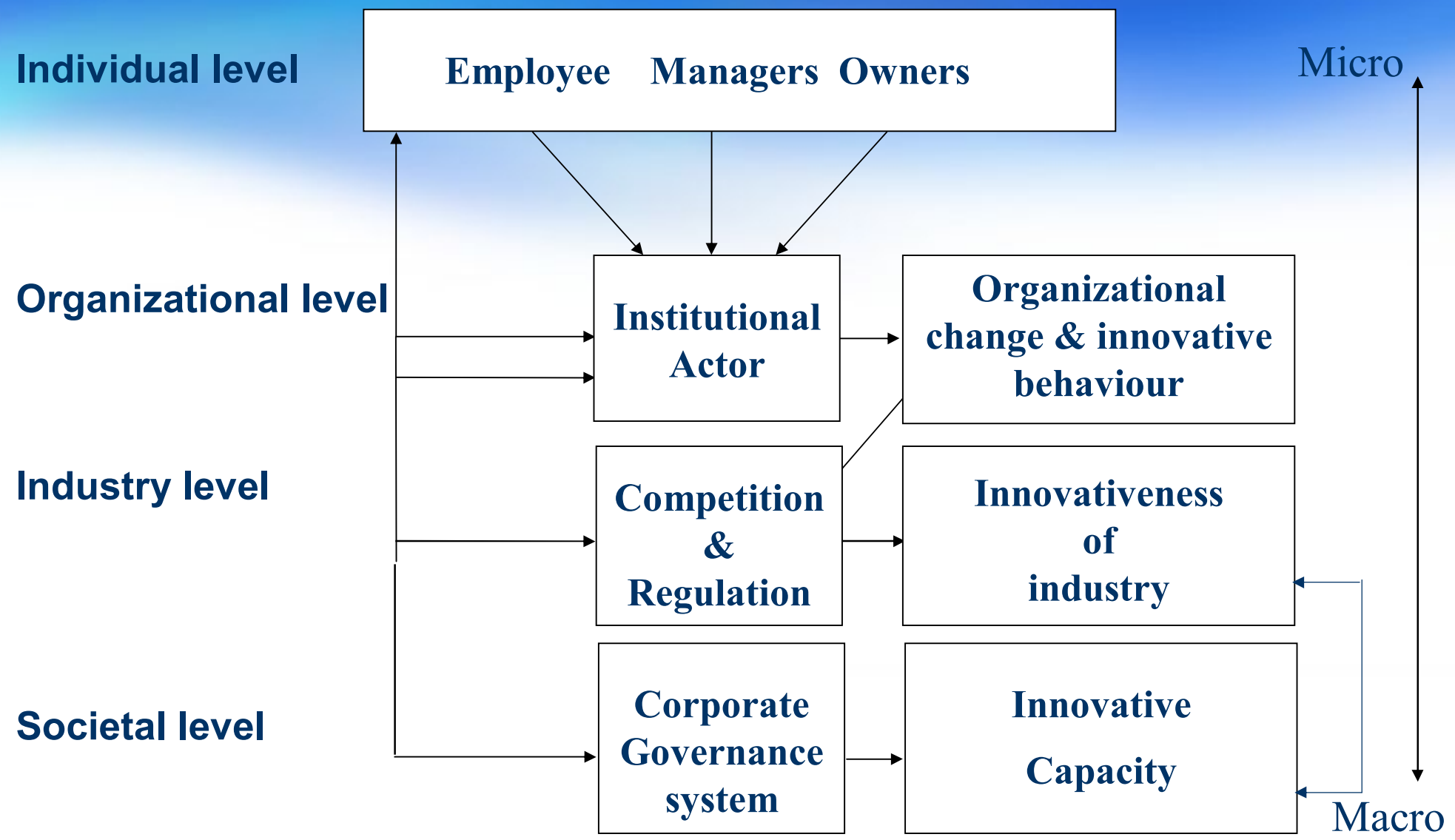
Institutional actors

Organizational level:

- Organizations are understood as institutions
- Different stakeholders' exercise strategic choice

Level of society:

- Organizations respond to the market & institutional environments
- Organizations can exercise strategic choice

Organizational change & innovation

Individual level

Employee   Managers Owners

Micro

Organizational level

Institutional Actor

Organizational change & innovative behaviour

Industry level

Competition & Regulation

Innovativeness of industry

Societal level

Corporate Governance system

Innovative Capacity

Macro

Ramamurti (2000) also developed "A multi-level model of privatization"

The organizational level: organizational change

- When institutional change is introduced (privatization), it is likely that the affected companies have to adapt to the new environment (Johnson, Smith & Codling, 2000; Greenwood and Hinings, 1993).

- Companies have individual freedom to choose between actions in relation to their institutional environment (Child, 1972).

- Decisions about organizational change depend on the perception as to which choice benefits in the future. This perception is influenced by the incentives that the institutional framework provides (North, 2005).

- The strategic choice of organizations may, in turn, impact on the institutional environment (Aldrich & Ruef, 2006).

The industry level: competition & regulation

- A competitive environment is very important in promoting the creation of innovation (Baumol, 2005). Van Slyke (2003) argues that improved efficiency in the context of privatization will only occur when competition has been introduced successfully.

- There is consensus that competition at the industry level benefits the outcome of privatization (Kay & Thompson, 1986; Dunsire et al. 1991; Vickers & Yarrow, 1991; Bishop & Thompson, 1992).

- In monopolistic industries, competition may be impractical and a form of regulation is required (Kay, Mayer & Thompson, 1986). In this case, the performance is largely determined by the degree of monopoly power and the form of regulation (Forsyth, 1984).

The society-level: corporate governance systems (CGS)

- "The governance of the corporation is now as important in the world economy as the governance of countries" (Wolfensohn 1998, p. 38).

- The CGS determines the nature of competition at the input markets (labour, manager, capital).

- Researchers have explored how the CGS of a country affects the types of innovations created by organizations (Hall & Soskice, 2003).

- Some authors have stressed that the CGS plays a crucial role in the success of privatization (Dyck, 2001; Shleifer & Vishny, 1997).

- Both the level of competition and the CGS significantly affect companies innovative activities (Pavitt & Patel, 1999).

Aim of this study:

- There is little knowledge as to how different corporate governance systems and competition have affected innovation after privatization.

- Privatization provides fertile ground for researching how different corporate governance systems influence on organizational change and innovativeness.

Research question:

- How do national systems of corporate governance and different competitive environments influence innovation in the context of privatization?

Industry of interest:

- The Airport industry

- During the last decade airports have developed from government-owned entities to sophisticated commercially-oriented enterprise ("airport cities")

Case Study- approach: Where?

- New Zealand, UK (LME's: corporate governance)

- Germany (CME's: corporate governance)

	LME (NZ, UK)	CME (Germany)
Employment relations & Human capital (HC)	Voluntary basis HC general, (exit)	Co-determination by law HC firm-specific, (voice)
Financial system	Market-based (exit) Market for corporate control (high disclosure) Dispersed shareholdings by portfolio investors	Bank-based (voice) by large shareholders (insider information) Concentrated ownership by strategic investors
Top management	Single board dominated by CEO	Dual board Multiple power
Corporate goal	Shareholder value & short term	Multiple & long term
Corporate strategy from a deterministic perspective	"big leaps" & radical innovation	"small steps" & incremental innovation

Airport Competition in New Zealand

By Car: Auckland to

- Wellington: 9hrs 20mins
- Christchurch:14hrs 20mins
  (plus ferry crossing* from
  Wellington to Picton)

By Train: Auckland to
- Wellington: 12hrs (Overlander)

Airport Competition in Germany

- Competition between Hubs (transit)
- Frankfurt ca. 53% (2006)
- London Heathrow ca. 35 % (2004)

Competition between airports & other modes of transport

- By train (speed ca. 300km/h)
- Frankfurt-Cologne ca. 1h16min.
- Frankfurt-Paris (1h20min flight; 4h03 Min train)

Selected cases

Industry

	Monopolistic	Competitive
CME	Hamburg airport?	Fraport AG
LME	Wellington International Auckland International	London Heathrow

Thank you.

Multiple Case study-approach

Why qualitative research methods?

- "an empirical inquiry that investigates a contemporary phenomenon within its real-life context" (Yin, 2003, p. 13)

- Allows to choose deliberately cases which have certain characteristics in order to understand a phenomenon better, and perhaps to build theory from it (Stake, 2000)

Why not deductive?

Börsch (2004 p. 609) claimed that institutional analysis should be complemented by firm-level analyses because:

"A stronger actor-centred approach focusing on firms as actors in their own right may be able to capture better the dynamics of corporate governance, and analyse how institutions and firm strategies interact…"

Methods and data analysis

Documents

- archival data (internal and external documents)
- (NVivo7)

Interviews

- semi-structured interviews, open-ended questions
- interview covers areas such as:

    - the company's strategic reorientation

    - organizational change

    - the company's learning experience

    - key stakeholders

Timeline of the Research

In the second year

- Write Chapter 3

- Data collection

- Data analysis

- Write Case study 1

In the third year

- Write Case study 3, 4, 5

- Write chapter 6

- Finalize PhD

Milestones

- Presentation of first results

- Submit Chapter 3

- Submit Case Study 1

- Submit Case Study 2-5

- Submit Thesis