Managerial discretion, firm performance, and CEOs' support for privatisation of state-owned companies*

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Abstract:

The objective of this paper is to shed light on the antecedents of managerial support for privatisation of State-Owned Enterprises (SOEs). The results of the study, based on 134 Polish SOEs, reveal that managerial autonomy (conceptualized as the extent to which CEOs are free from stakeholder pressure) is negatively related to CEOs' support for privatisation. Moreover, firm performance has an indirect impact on CEOs' support for privatisation, that is, it enhances CEOs' positive attitude towards state control, which, in turn, negatively relates to CEOs' support for privatisation. The study brings important theoretical and practical implications, indicating that privatisation efforts may meet with strong resistance from managers who enjoy a high level of discretion in SOEs.

Keywords: managerial autonomy, state-owned company, state-owned enterprise, performance, privatisation, CEO

1. Introduction

State-Owned Enterprises (SOEs) play a significant role in the world economy, generating approximately one tenth of world GDP and representing 20% of the global equity market (Bruton/Peng/Ahlstrom/Stan/Xu 2015). SOEs are predominantly active in emerging and transitional economies and are present in post-transitional economies of Central and Eastern Europe (CEE). SOEs suffer from a communist legacy, where they are regarded as a 'residual' organisational form (Kozminski 1993). Moreover, as a result of the 2008 financial crisis, some traditionally capitalistic countries like the U.S. and Great Britain partly nationalized such significant private companies like General Motors and the Royal Bank of Scotland (Bruton et al. 2015). The proportion of SOEs (defined as companies having 50% or more state ownership) among the Fortune Global 500 has risen from 9% in 2005 to 23% in 2014 (Sturesson/McIntyre/Jones 2015).

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Despite the visibility of SOEs in contemporary economies, research on SOEs is very scarce (Bruton et al. 2015). This may be explained by the fact that the discussion on state ownership is ideological by nature, and thus research on SOEs has been often overshadowed by public debate including ideological considerations and recommendations on 'how the enterprises should behave' (Aharoni 1981).

One of the crucial points of the public debate on SOEs is the issue of managerial autonomy. As stated by Lioukas, Bourantas and Papadakis (1993: 645), 'autonomy, to an extent, is explicitly or implicitly recognized when creating an SOE as an independent legal body. (...) Placing enterprise decisions outside politics and ministerial bureaucracy is assumed to promote the efficiency of both enterprises and government'. However, managerial autonomy of SOEs is severely constrained due to increased pressure from stakeholders (Li/Tang 2010).

In response to these constraints, managers have developed autonomy strategies, allowing them to increase the latitude of their decision making. Previous studies suggest that privatisation is the key autonomy strategy of SOE managers (e.g., Sexty 1980). There is, however, rich evidence that SOE managers are often unsupportive of privatisation efforts (OECD 2009). Kozarzewski (2006) suggests that the resistance from the top management teams was among the key barriers to privatisation in Poland.

The objective of this paper is to shed more light on the antecedents of managerial support for privatisation, as well as to gain a better understanding of the circumstances that make managers reluctant to privatisation efforts. More specifically, we ask the following question: What is the relationship between managerial autonomy, firm performance, and CEOs' support for privatisation? We focus on CEOs, following the notion that they constitute a crucial micro-institution shaping the mindset of SOEs (Bruton et al. 2015).

This paper brings a number of contributions to the literature. First, it incorporates two streams of research, agency theory and upper echelons theory, to the study of autonomy strategies of SOE managers. Second, it focuses on the little-examined issue of barriers to privatisation posed by a managerial mindset. More specifically, this paper increases the understanding of circumstances under which SOE managers are supportive of privatisation. Third, it responds to the calls to study SOEs in more diverse contexts (Peng/Bruton/Stan/Huang 2016). Although SOEs operate in countries with different institutional, cultural backgrounds, and with different corporate governance systems, extant literature on SOEs concerns mainly Chinese companies (Bruton et al. 2015). We address this gap by providing insights from rarely-examined SOEs of a CEE country (Poland). By doing so, we contribute to the literature on economic transformation of CEE countries and, more generally, to the literature on 'varieties of capitalism' (Hall/Soskice 2001).

The paper is structured as follows. We first present an overview of the existing literature and we develop hypotheses. We then discuss our methods and present our empirical findings. We conclude with a presentation of theoretical and practical implications of our work and finally conclude with the limitations of our study.

2. Literature review and hypotheses development

2.1. Specific features of State-Owned Companies

From a legal point of view, a company of which at least one share is transferred to private investors is no longer only state owned. However minority ownership can often secure significant influence of the State (Postuła 2013 a). Therefore, State-Owned Enterprises (SOEs) are defined by the OECD (2005) as enterprises where the State has significant control through full, majority, or significant minority ownership.

The crucial difference between SOEs and private companies relates to the very unique character of State ownership, followed by complex corporate governance mechanisms of SOEs and the specific mission of SOEs, guided by the principle of public interest.

As with other joint stock companies, SOEs operate through their bodies. The two-tier system[1] is based on the separation of managerial (management board) and supervisory (supervisory board) functions. In addition to these bodies, within companies there are also general meetings of shareholders at which fundamental decisions regarding the company are made. Relationships between the various bodies are based on shareholders transferring their rights to run the company to the management board, which is supervised by the supervisory board. In Polish SOEs, supervisory board members are appointed in the competition procedure organised by the ministry officials that decide which candidates are recommended to the Minister of Treasury. The final decision on the appointment of a particular person is taken by the Minister. Management board members are appointed in the completion procedure by the supervisory boards (Act on commercialization and privatization 1996; Ordinance of the Minister of Treasury 2013).

In SOEs, the functions of the main shareholder (i.e., the State) in terms of ownership rights are performed by the Treasury, an abstract legal person that does not conclude business transactions independently, but is instead represented by the Minister of Treasury. He or she is a political authority and member of the

1 There are, in general, two dominant corporate governance systems. In the one-tier system (adopted in the U.S. and most Commonwealth countries), executive and non-executive directors sit on the same board. In the two-tier (dual) system (adopted in Germany and some other countries, including the Netherlands, Austria, Norway, Finland, China, and Poland), there are two separate boards: management board and supervisory board. Since our research setting is Poland, we focus on the two-tier (dual) system.

government, which means that his or her decisions are likely to be politically conditioned. In other words, his or her decisions may not be aligned with the companies' interests, but instead with the interests of the governing coalition (or more specifically, of the political circles from which the Minister comes). Therefore, one of the inherent features of SOEs is their dependence upon political factors (Roe 2003).

As the Treasury's representative, the Minister is supported by the Ministry officials, who have a significant influence on the functioning of companies. Their positions are not political in nature and do not depend directly on parliamentary election results, in contrast to the Minister, who is a political body. Moreover, officials' positions do not depend on the situation in the market and within the SOEs. Nevertheless, since Treasury officials respond to the Minister, they may be indirectly influenced by political forces. Moreover, their 'administrative' mindset is often incompatible with the business objectives (Kirkpatrick 1988; Ayub/Hegstad 1986).

SOEs are supposed to be guided by public interest. However, there is no general definition of public interest or what may entail its discretionary application, allowing politicians to influence companies. For example, politicians can decide on the staff composition of the bodies and explain the need for staff changes simply by invoking the public interest clause.

The ambiguity of invoking public interest may result from the ambiguity of ideological assumptions. It may be disputed, for example, whether maintaining unprofitable mines operating as SOEs is in the public interest. While socially justifiable, it is unreasonable from a purely economic point of view (Postuła 2013 a).

It can be argued that political impact on companies is justified by the fact that since a given party has won the election, its activities coincide with objectively understood public interest, i.e., that political will has its source in social will through the election act and is then put into practice by the elected legislator. Such reasoning is close to the argument that corporate governance mechanisms should include democratic strategic decision-making processes that, most notably, encompass all of the public affected by the strategies, not only those who shape these decisions (Branston/Cowling/Sugden 2006). Such a statement is, however, difficult to put into practice, because 'the picture of democratic decision-making procedures which assumes that the parliamentary majority is identical to the social majority and represents (...) the general will is a myth' (Morawski 2003). A voter casting a vote in an election does not make a decision relating to a specific SOE's situation in which public interest must be defined. A voter is completely unaware of such a situation, not to mention its specific background.

2.2. Managerial autonomy in State-Owned Enterprises

One of the key questions in strategy literature relates to the extent to which managers are free to choose the courses of action and the extent to which their choices influence the organizational-level outcomes. This question has been tackled by two streams of literature: agency theory and upper echelons theory.

Agency theory addresses the agency problem, i.e., the conflict of interest between agents and principals (Eisenhardt 1989). Since this problem is particularly relevant to SOEs, agency theory has been extensively used in SOE research. Many scholars claim that state ownership aggravates the agency problem (Cheung/Jiang/Limpaphayom 2010; Clarke 2003). This is due to the fact that the public sector is dominated by multiple 'principals'. As stated by Vagliasindi (2008: 13), management of SOEs 'finds itself accountable to and monitored by a shifting coalition of interest groups, consisting of politicians, bureaucrats, labour unions, and a plethora of different stakeholders'. For this reason, SOEs may be considered also as pluralistic organizations, i.e. 'structures enabling actors with diffuse power and divergent perspectives to cooperate on substantive issues' (Bres/Raufflet 2013). In SOEs, these issues are: public interest and business performance. SOEs' interest groups need to cooperate to achieve these goals, which may be difficult due to the 'incommensurability' (Kuhn 1996). Such incommensurability arises from the lack of accepted common norms with which to compare, conciliate, or rank the actors' different perspectives (Scherer 1998). In such situations, the significance of the discretionary power of managers is increasing, since it is the role of managers to decide which of the interests, expressed by different interest groups, will be satisfied by the company.

Hou and Moore (2010) indicate that state ownership weakens internal monitoring mechanisms and leaves the managers with opportunities to commit fraud. Other authors argue that agency problem is exaggerated in SOEs, since they tend not only to attain shareholder wealth maximization but also to reach public goals such as controlling sensitive industries (Clarke 2003) and reducing local unemployment rate (Fan/Won/Zhang 2007). This fact may also strengthen managerial discretion, since the managers may claim that they are not effective in business since they are obliged to reach not business, but public goals. Political impact on SOEs' objectives makes them ambiguous and changeable. Moreover, such ambiguity makes monitoring managers difficult, since there is no clear benchmark for good management (Ferner 1988).

The administrative nature of supervision over companies with State shares makes the whole system of corporate governance non-transparent and limits companies' autonomy at the operational level (Kirkpatrick 1988; Ayub/Hegstad 1986). Managerial discretional power may be therefore limited by the administrative supervision. Xu, Zhu and Lin (2005) claim that control exercised by the State authorities over corporate functions reduces agency costs while increasing the costs of political influence. On the other hand, the autonomy of managers reduces political costs but generates agency costs (Xu et al. 2005). Under this assumption, the managerial discretionary power is limited by politicians and vice versa political influence is weakened by managerial power.

The extent of managerial autonomy has also been the key question asked by strategy scholars. In the debate concerning this issue, two opposing views emerged (Hambrick 2007). The first perceives top executives as key strategy-makers, arguing that they have a significant impact upon the behaviour of their organisations and its subsequent outcomes (Hambrick/Mason 1984). The second, grounded in population ecology (Hannan/Freeman 1977) and new institutional theory (DiMaggio/Powell 1983), states that executives have very little impact upon their organisations, since they face external (i.e., environmental) and internal (i.e., organisational) constraints that limit the freedom of their choices. In an attempt to reconcile these perspectives, Hambrick and Finkelstein (1987) offered the concept of managerial discretion, referring to latitude of actions, which may be assessed on a continuum from very low to very high. In contrast to the agency theory, arguing that managerial discretion may be detrimental to the stakeholders (and more specifically, to owners), strategy literature perceives managerial discretion as a neutral concept (Ponomareva 2013).

The level of managerial discretion is influenced by three groups of factors: environmental conditions (e.g., high industry growth enhances managerial discretion), organisational conditions (e.g., weak supervisory boards allow for a greater level of managerial discretion) and individual background, preferences, and dispositions (Hambrick 2007).

Similar to private companies, SOEs operate in a complex environment facing various groups of stakeholders, including those depicted in Porter's 5 forces model (customers, suppliers, producers of substitutes, new entrants, and competitors), as well as local communities, trade associations and financial markets, etc. (Sexty 1980). However, unlike private companies, SOEs face additional levels of complexity, arising from their predominantly public ownership.

According to the stakeholder approach, companies' purpose is to strive for a balance between the conflicting goals of various stakeholders and to coordinate measures to achieve this purpose (Freeman 1984). Achieving this purpose in SOEs is difficult since the structure of its stakeholders and their interests are more complex than in private companies. Compared to private companies, SOEs receive more pressure from public interest groups, such as consumer activists, environmentalists, and human rights advocates, with general society and the local communities expecting them to be more sensitive to societal issues. Greater public demands placed upon SOEs result from the beliefs that these companies are supposed to operate in public interests, and therefore their commercial objectives should be subordinate to political and social objectives (Sexty 1980; Maltby 2003, Branston/Cowling/Sugden 2006). These objectives may include controlling strategic industries, maintaining employment, or securing natural resources. Moreover, since SOEs tend to depend on the state for resources (e.g., financial capital, suppliers, product distribution), they often face extensive controls and interventions from the state (Li/Tang 2010).

CEOs of SOEs are often politically appointed. This factor brings another constraint to managerial autonomy in SOEs. Political connections of CEOs have been found to substantially influence firm decision making and its subsequent performance. Bertrand, Kramarz, Schoar and Thesmar (2004), in their study of French stock listed firms found that political connections of CEOs resulted in distortions in the job creation process. Fan et al. (2007) found that Chinese stock listed companies with politically connected CEOs performed worse than companies with CEOs without political ties.

2.3. Managerial autonomy and support for privatisation

As with most types of businesses, SOEs operate in a complex environment and face many stakeholders. However, due to the fact that they are controlled by the State, and due to their special mandate referring to 'public interest', SOEs are typically more susceptible to stakeholders' influences. Moreover, the structure of such influences is much less transparent due to two major factors. First, stakeholders of SOEs are often interconnected, both by formal (e.g., State Treasury officials sitting on the Supervisory Boards) and informal ties (e.g., relationships between trade unions and politicians). Second, stakeholders of SOEs are often connected by multi-level links (e.g., officials respond to the Minister of State Treasury, Minister of State Treasury responds to the Prime Minister). Therefore, this need for independence may be severely frustrated in the case of SOE managers (Postuła 2014).

While the level of managerial autonomy is restricted by stakeholders, it may change in time, following changes in the relationships between the company and its stakeholders. Such changes may be brought by privatisation, which produces radical changes in the company's status quo. Privatisation has been perceived as an 'autonomy strategy' of SOE managers, as it facilitates management's independence, enabling managers 'to operate with less reference to government and with a greater degree of discretion in decision-making' (Sexty 1980: 477). Moreover, privatisation significantly increases the bargaining strength of managers with regard to trade unions (McCarthy/Reeves/Turner 2011). In privatised companies, trade unions can no longer leverage the status of political interest groups in order to influence a firm's decision-making process. Therefore, privatisation is believed to 'depoliticize' relations between management and trade unions (Earle/Estrin/Leschenko 1996). Managers of privatised companies are typically allowed greater autonomy by private-sector shareholders, who provide managers with more clearly defined and measurable goals. As a result, managers can more strongly oppose trade union demands, if such demands are not compatible with shareholders' objectives (McCarthy/Reeves/Turner 2011). These findings indicate that privatisation increases managerial autonomy.

Therefore, we argue that managers suffering from severe constraints on their autonomy (i.e., significant pressure from stakeholders) will be more supportive of privatisation. Managers enjoying more freedom (i.e., less pressure from stakeholders) will be more inclined to maintain the status quo and less supportive of privatisation.

We may, therefore, formulate the following hypothesis:

H1. The degree of managerial autonomy will be negatively related to CEOs' support for privatisation.

2.4. Performance, attitude towards state control, and support for privatisation

SOEs are typically worse performers than private companies. This may be explained by the political influence exerted on SOEs, which include constraints on strategic choices, disclosure of sensitive information to the government, risks associated with potential changes in the political regime, and lower motivation of managers with political affiliations (Faccio 2006; Boubakri/Cosset/Saffar 2008; Okhmatovskiy 2010).

Compared to private firms, SOEs are also less concerned with profits and market goals (e.g., market share, market growth). In their study of multinational companies operating in extractive industries, Bass and Chakrabarty (2014: 975) found that companies with greater state ownership were more focused on 'pursuing long-term energy and economic security, operating as capitalist foreign-policy arms of their home-country governments, and striving to enhance geopolitical position and power'.

On the other hand, connections with the government may also provide the corporation with opportunities to receive some privileges, such as access to public money, information on strategies or regulations prepared by the government, and favourable treatment by administrative and tax authorities (Claessens/Feijen/Laeven 2008; Fan/Rui/Zhao 2008; Fisman 2001; Goldman/Rochol/So 2009). These privileges may translate into 'political resources', thus increasing SOEs' performance (Peng/Bruton/Stan/Huang 2016).

We argue that firm performance contributes to the formation of the managerial attitude towards state control. Managers of high-performing firms will have a more favourable attitude towards state control. Managers of low-performing firms will be less enthusiastic about state control. They will be more inclined to attribute the company's failures to the negative influence of the state. Moreover, we argue that firm performance, shaping the managerial attitude towards state control, will indirectly influence CEOs' support for privatisation.

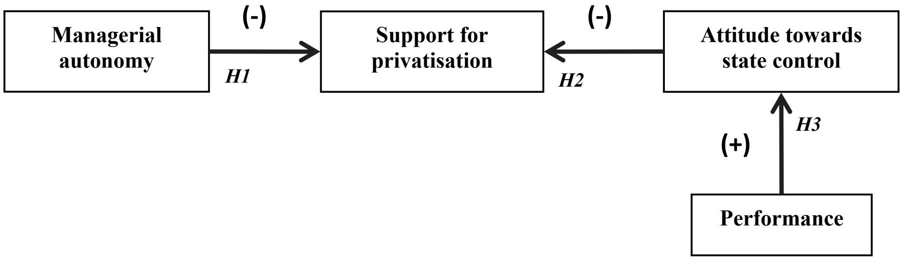
Therefore, we formulate the following set of hypotheses:

H2. *Positive attitude towards state control will be negatively related to CEOs' support for privatisation.*

H3. *Higher firms' performance will enhance CEOs' positive attitude towards state control.*

The proposed relationships are presented in Figure 1.

Figure 1. Analytical framework



Source: Author's own research

3. Research context, data, and method

3.1 Research context

Our research setting is Poland, a former member of the Soviet Bloc, then a transitional economy and now (according to recent classifications by the IMF) an advanced emerging economy. SOEs were formed in Poland in the mid-1990 s as a result of commercialisation of the former state-owned enterprises, the form which was characteristic of a centrally planned economy. Some Polish SOEs were subsequently privatised, but many of them remained under the decisive influence of the State.

Privatisation of SOEs was, and to a large extent continues to be, the main challenge of Polish transition from a centrally planned to a market economy (Sachs 1993). Contrary to the macroeconomic stabilization process in Poland, privatisation unfolded very slowly. In 1990, the privatisation law was passed and was followed by small-scale privatisation involving the retail and service sectors, and was almost completed by the end of 1992. The privatisation of the remaining 8.400 medium- and large-sized enterprises, accounting for 70-80% of the GDP (Nellis 2002), was much more difficult.

In 2004, Poland joined the European Union; its transition to a democracy and a market economy was then considered by many to be over. However, a significant transition policy task remains; namely, reduction of the direct involvement of the state in the economy (and more specifically, privatisation of key companies in heavy industries and mining). Today's post-transitional Poland is still characterized by a large number of state-controlled firms. Some of them have been privatised (e.g., through public listing), but the State still holds a controlling ownership in many of these (e.g., copper conglomerate KGHM Polska Miedź). The most extreme form of State control are SOEs where the state holds over 50% of the shares.[2] The unfinished privatisation, resulting in a large number of SOEs with a significant State control (above 50% of shares), makes Poland an ideal context in which to study the antecedents of managerial support for privatisation.

3.2 Data collection and sample

The population under study consists of CEOs of Polish SOEs with State control above 50% of shares. In order to collect the data, we first collected a list of Polish SOEs as of 1 January, 2011, covering all companies in which the Treasury holds 100% of shares and companies in which the Treasury holds the majority shares. We received a preliminary list from the Ministry of Treasury. We telephonically contacted all the companies in the list in order to exclude companies in bankruptcy or liquidation. The final number of Polish SOEs covered by the study amounted to 308 companies. In March 2011 we mailed the questionnaires to all 308 CEOs and received 134 responses, thus achieving a response rate of 43.5%. Cycyota/Harrison (2006) assessed that the median response rate for executive populations surveyed in articles published in top-tier journals amounted to 34%. Our response rate for CEOs of SOEs is higher, which may be attributable to the following facts: (1) the data collection received the support of the Minister of the State Treasury (a respective letter was included in the envelope with the questionnaire); (2) the research was sponsored by the National Science Center in Poland, which is a renowned public institution; and (3) the research team represents a public university, which may increase the willingness of public sector organizations to take part in the study.

The questionnaire consisted of 4 sections. The first section focused on respondents' attitudes to SOEs functioning, in particular: SOEs' purpose, SOEs' stakeholders, privatisation, and most important problems of SOEs'. The second sec-

2 In Poland companies in which the State ownership exceeds 50% of shares (SOEs) are subject to a special regulation. This regulation differs from the general regulations that concern other companies in Poland, in particular in terms of the appointment procedure and remuneration of companies' board members. It also offers the Minister and ministry officials a greater impact on SOEs than in companies in which State is the minority shareholder.

tion focused on the role of ministry officials. The third and the fourth section focused, respectively, on management and supervisory boards.

The sample includes 4 micro (1-9 employees), 34 small (10-49 employees), 65 medium (50-249), and 31 large firms (over 249 employees). The industry structure is as follows: manufacturing (35%), services (54%), trade (6%), and agriculture (5%).

3.3. Measures

3.3.1. Managerial autonomy

In order to assess managerial autonomy, based on previous qualitative research on Polish SOEs (Postuła 2013 a), we generated a list of items referring to various stakeholders (trade unions, State Treasury Minister, State Treasury Officials, Supervisory Board, consumers, local community, society), their direct influence on the course of action of SOEs, and the extent to which their interests are protected by law. We conducted an exploratory factor analysis (EFA) using principle components analysis with varimax rotation, excluding items whose values were less than 0.500 in the diagonal anti-image correlation matrix and 0.500 in commonality. Following this procedure, 10 items were left. These items (each with an eigenvalue greater than 1) loaded to three distinct components, which together explained 67.15% of the interfirm variance. Therefore, managerial autonomy is assessed by three latent variables (Table 1): political pressure (Cronbach's α=0.835), pressure from society (Cronbach's α=0.791), and pressure from trade unions (Cronbach's α=0.809).

In order to test for sampling adequacy, we performed the Kaiser-Meyer-Olkin (KMO) test. The KMO value was 0.692, that is above the minimum recommended threshold of 0.5 (Kaiser 1974). Therefore, the sampling was adequate. The Bartlett's test of sphericity was significant ($p<0.001$). Therefore, the structure of our data was suitable for factor analysis.

Table 1: Exploratory factor analysis

Questionnaire items	Loadings			Name of latent variable / Cronbach's α
Influence of Secretary of State	0.811			Political pressure; Cronbach's α=0.835
Influence of State Treasury Minister	0.802			
Influence of Shareholders Meetings	0.720			
Influence of State Treasury officials	0.717			
Influence of Supervisory Board	0.671			

Questionnaire items	Loadings			Name of latent variable / Cronbach's α
Interests of the local community are protected by law		0.900		Pressure from society; Cronbach's α=0.791
Interests of the society are protected by law		0.827		
Consumer interests are protected by law		0.773		
Influence of trade unions			0.910	Pressure from trade unions; Cronbach's α=0.809
Trade unions interests are protected by law			0.898	

Source: Author's own research

3.3.2. Support for privatisation

Support for privatisation was measured using a 5-point Likert-type scale including the following items, each ranging from 1 = strongly disagree to 5 = strongly agree: (1) All SOEs should be immediately privatised; (2) Privatisation will have a positive impact on long-term standing of SOEs; and (3) Privatisation will have a positive impact on financial results of SOEs (Cronbach's α = 0.803).

3.3.3. Attitude towards state control

Attitude towards state control was measured with a 5-point Likert-type scale including the following items, each ranging from 1 = strongly disagree to 5 = strongly agree: (1) State ownership has a positive impact on SOEs; (2) Control from State Treasury officials has a positive impact on SOEs; and (3) Influence of State Treasury on decisions made by shareholder meetings has a positive impact on SOEs (Cronbach's α = 0.736).

3.3.4. Performance

Performance was assessed with a dichotomous variable, corresponding to the following item: In the last financial year the company achieved profits (coded as 1) / was at a loss (coded as 0).

3.3.5. Control variables

We controlled for firm size with a dichotomous variable, amounting to 1 if a company employed less than 249 employees. We controlled for industry with a dichotomous variable, amounting to 1 if a company operated in manufacturing.

Table 2: Correlations and descriptive statistics

	1	2	3	4	5	6	7	8	Mean	S.D.
1. Support for privatisation	1								3.503	0.955
2. Attitude towards state control	-0.264**	1							2.496	0.769
3. Political pressure	0.191*	0.060	1						3.568	0.996
4. Pressure from socjety	0.253**	-0.007	0.048	1					3.084	1.016
5. Pressure from trade unions	0.105	0.356**	0.129	0.177*	1				2.760	0.843
6. Performance	-0.082	0.221*	-0.075	-0.008	0.080	1			0.597	0.492
7. Size	-0.293**	-0.011	-0.131	-0.229**	-0.132	-0.054	1		0.769	0.423
8. Industry	0.083	-0.269**	0.150†	0.142	-0.119	-0.230*	-0.133	1	0.347	0.478

Source: Author's own research
Note: Correlation is significant: **at the 0.01 level (2-tailed); *at the 0.05 level (2-tailed); †at the 0.10 level (2-tailed).

3.4. Assessing common method variance

Because we gathered data from a single respondent using the single method (pen-and-paper questionnaire), our data may be susceptible to common method bias (CMB) (Podsakoff/MacKenzie/Lee/Podsakoff 2003). To address this concern and to ensure data reliability, we undertook the following ex ante measures: (1) We ensured full confidentiality and anonymity of data (individual responses were not traceable to the company names); (2) Given the limited population of Polish SOEs, we did not ask questions that would allow easy identification of the company (e.g., exact number of employees, exact value of profits), instead using more general proxies (e.g., firm category by size: micro, small, medium, large); (3) We used different scales and formats, including a number of questions relating to specific issues of corporate governance of SOEs that were not part of this study, and we mixed the order of questions; (4) The inclusion of a variety of questions, in different orders and relating to different issues as well as the complexity of our hypothesized model ensured that respondents were not guided by our theoretical expectations, as they were unlikely to be 'part of the respondents' theory-in-use' (Chang/Witteloostuijn/Eden 2010); and (5) We pretested the questionnaire in order to reduce ambiguity and unfamiliarity. Moreover, as an ex-post measure, we conducted a Harman's single-factor test to assert that our research is not severely affected by CMB. The unrotated principal component factor analysis with all the variables used in the study extracted six different factors with eigenvalues greater than 1, which together accounted for 70.06% of the total variance. The first factor accounted for 17.73% of the total variance. Given that no single factor emerged and the first factor did not account for most of the variance, CMB should not be a concern.

4. Results

4.1. Methods of analysis

In order to examine the impact of managerial autonomy upon support for privatisation, we first focused on the conceptualisation and operationalisation of managerial autonomy in SOEs. We conducted an exploratory factor analysis (see section 3.3.1) and extracted three latent variables relating to three types of pressures from stakeholders: political pressure, pressure from trade unions, and pressure from society. We studied the independent impact of these variables upon SOEs.

The impact of three variables relating to managerial autonomy (i.e., political pressure, pressure from trade unions, and pressure from society) and attitude towards State ownership regarding support for privatisation was examined according to the conceptual model (Figure 1). We tested the significance of key independent variables (pressure from the State, pressure from trade unions, pressure from society, attitude towards State ownership) and for the dependent variable (support for privatisation) a hierarchical regression analysis was used (see Table 3: model 1 – baseline and model 2 – full).

To test for the mediation effect of the attitude towards State ownership on the relationship between firm performance and support for privatisation, the study follows the Cohen and Cohen (1983) procedure, based on the Sobel test.

In order to examine potential multi-collinearity problems, we calculated the variance inflation factors (VIFs). The VIFs for all the variables were below 1.30. Since this value is lower than the recommended threshold (Neter/Kutner/Nachtsheim/Wasserman 1996), we conclude that multi-collinearity is not a concern in this study. Moreover, we tested the autocorrelation of residuals (Durbin-Watson test) and the normality of residuals (Kolmogorov-Smirnov test). The Durbin-Watson statistics for both models indicated that the models were not misspecified, that is, there was no autocorrelation in the residuals. The Kolmogorov-Smirnov tests for both models were insignificant, thus indicating that the normality assumption was met. We analysed the plots of residuals versus predicted values to check the assumptions of homoscedasticity and linearity. The plots indicated that the residuals and the fitted values were uncorrelated.

4.2. Findings

Hypothesis 1 and Hypothesis 2 predict that managerial autonomy and attitude towards state control, respectively, negatively impact support for privatisation. In order to test H1 and H2, we employ a hierarchical regression analysis, which requires comparing the explanatory power of the baseline model 1 (which examines only the effects of control variables) with the full model 2 (which includes independent variables, i.e., political pressure, pressure from society, pressure from trade unions, and attitude towards State control). The regression results are presented in Table 3. The baseline model is significant ($p<0.05$) and the full model is significant at $p<0.001$.

The inclusion of tested variables increases the explanatory power of the model 2 in a statistically significant way, captured by the change in R square (model 2 in Table 3: change in R square=0.196; F-change=6.975, $p<0.001$). Three variables relating to managerial autonomy (i.e., pressure from the State, pressure from trade unions, pressure from society) included in model 2 are positively related to support for privatisation ($p<0.05$). Since we conceptualise managerial autonomy as the extent to which CEOs are free from stakeholders' pressure (i.e., the lower the pressures from the State, trade unions and society, the higher the managerial autonomy), we conclude that managerial autonomy is negatively related to support for privatisation, thus providing support for Hypothesis 1.

Hypothesis 2 argues that attitude towards State control is negatively related to support for privatisation. Our findings presented in Table 3 (model 2) reveal that attitude towards State control is indeed negatively related to support for privatisation ($p<0.001$). This provides support for Hypothesis 2.

Table 3. Hierarchical regression analysis: direct effects of pressures from stakeholders and attitude towards State control on support for privatisation.

	Model 1 (baseline)			Model 2 (full)				
	Beta	T	Significance	Beta	T	Significance	Tolerance	VIF
Size	-0.279	-3.026	0.003	-0.201	-2.320	0.022	0.923	1.083
Industry	0.038	0.409	0.683	-0.100	-1.124	0.263	0.876	1.142
Political pressure	-	-	-	0.202	2.347	0.021	0.930	1.075
Pressure from trade unions	-	-	-	0.209	2.363	0.020	0.886	1.129
Pressure from society	-	-	-	0.208	2.260	0.026	0.816	1.225
Attitude towards State control	-	-	-	-0.388	-4.161	0.000	0.797	1.255
Model Summary								
R2	0.81	-	-	0.274	-	-	-	-
Adjusted R2	0.64	-	-	0.232	-	-	-	-
F	4.806	-	-	6.606	-	-	-	-
Sig. of F	0.010	-	-	0.000	-	-	-	-

	Model 1 (baseline)				Model 2 (full)			
	Beta	T	Significance	Beta	T	Significance	Tolerance	VIF
Change in R2	-	-	-	0.196	-	-	-	-
F-Change	-	-	-	6.975	-	-	-	-
Sig. of F-Change	-	-	-	0.000	-	-	-	-

Source: Author’s own research

Hypothesis 3 predicts that attitude towards State control mediates the relationship between firm performance and support for privatisation. We test this hypothesis following the framework developed by Cohen and Cohen (1983), which assumes that the mediation exists when the relationships between (1) independent variable (i.e., performance) and mediator (i.e., attitude towards State control) and (2) mediator (i.e., attitude towards State control) and dependent variable (i.e., support for privatisation) are statistically significant. While the second condition (corresponding to Hypothesis 2) has been tested in model 2, we test the first condition with a regression model, relating firm performance to attitude towards privatisation (Table 4).

Table 4. Regression analysis: direct effects of firm performance on attitude towards State control.

	Model 3		
	Beta	T	Significance
Performance	0.344	2.558	0.012
Model Summary			
R2	0.049	-	-
Adjusted R2	0.041	-	-
F	6.542	-	-
Sig. of F	0.012	-	-

Source: Author’s own research

Since the relationship is statistically significant, we conclude that the conditions for mediation analysis are met. In order to test the significance of the mediation effect, we use the Sobel test. Our results (Sobel-test statistic = -1.973; $p<0.05$) reveal that attitude towards state control mediates the relationship between firm performance and support for privatisation. Therefore, we find support for Hypothesis 3.

5. Discussion

The objective of this paper was to provide a better understanding of the antecedents of managerial support for privatisation. We hypothesized that support for privatisation would be dependent upon managerial autonomy, attitude towards State control, and firm performance.

We first assessed the managerial autonomy in Polish SOEs, using exploratory factor analysis. We generated a list of items referring to various stakeholders (both internal and external) and we extracted three latent variables: political pressure, pressure from trade unions, and pressure from society. Interestingly, influence of Secretary of State, State Treasury Minister, Shareholders Meeting, State Treasury Officials, and Supervisory Board loaded to one factor (denominated as 'political pressure'). This finding is compatible with the results of previous research on SOEs' supervisory boards that demonstrated that the selection of supervisory board members and supervisory boards' functioning is politically determined and that their composition depends on the electoral cycle. The political body that influences supervisory boards in all these aspects is the minister. As for the influence of administrative factors, supervisory boards' composition and work are influenced by the ministry officials. Moreover, ministry officials can also be supervisory board members (Postuła 2013 b).

We then tested our research hypotheses, investigating the relationships between managerial autonomy (assessed with three latent variables extracted by the exploratory factor analysis), firm performance, and CEOs' support for privatisation. We found that all types of stakeholders' pressure (political pressure, pressure from trade unions, and pressure from society) positively relate to support for privatisation. Therefore, we found support for the notion that managerial autonomy (conceptualised as the extent to which CEOs are free from stakeholder pressure) is negatively related to CEOs' support for privatisation. Moreover, we revealed that firm performance, shaping the managerial attitude towards State control, has an indirect impact on CEOs' support for privatisation.

Our results support the notion that 'it is the relationship with the owner-government that presents a challenge for managers, and (...) this complex relationship is one reason why managers attempt to develop autonomy strategies' (Sexty 1980: 375). The characteristics of SOEs derive from the fact that the State is their shareholder, and in particular from the legal structure of the Treasury, which is a legal person performing the functions of the State in the sphere of dominion, i.e., in the area of ownership rights. The characteristics of SOEs include: SOEs' duty to act in the public interest, political background for SOEs' operations, and SOEs' dependence on administrative factors. These characteristics are interlinked. Public interest is actually defined in a particular situation by the Minister, who is a political body supported by officials – acting under administrative rules – as regards decision contents and organisational matters.

The special status of SOEs makes them particularly prone to pressures from various groups of stakeholders. Our research reveals that the stronger these pressures are, the more CEOs are supportive of privatisation. In line with Hambrick's (2007: 341) observation that 'executives are humanly finite – susceptible to fatigue, boredom, jealousy, cognitive biases, social preening, and selfishness', we argue that CEOs' support for privatisation is driven by their self-interest. Based on our findings, we conclude that CEOs whose autonomy is severely restricted seek a radical change of status quo, thus supporting privatisation. For them, privatisation represents an opportunity to increase their decision-making autonomy. Conversely, CEOs who enjoy a high level of decision-making latitude will be more resistant towards privatisation, which may pose a threat to their autonomy.

Our findings suggest that support for privatisation is indirectly linked to firm performance and that this relationship is mediated by attitude towards State control. CEOs of profitable firms enjoy a higher prestige, have a privileged position in negotiations with the State, and are more inclined to develop a positive attitude towards State control. Conversely, CEOs of unprofitable companies are inclined to attribute their firm's poor performance to the negative influence of the State, thus developing a negative attitude towards State control, which makes them more supportive of privatisation.

Lioukas et al. (1993: 645) stated that 'autonomy, to an extent, is explicitly or implicitly recognized when creating an SOE as an independent legal body. (...) Placing enterprise decisions outside politics and ministerial bureaucracy is assumed to promote the efficiency of both enterprises and government'. While we strongly support the notion that independence from politics would enhance firm efficiency, we argue that autonomy of SOEs is inherently restricted by political factors. SOE is independent as a legal entity only from a legal point of view. It operates through its bodies, i.e., its management board, supervisory board, and general meetings of shareholders. However, management board members are elected by the supervisory board, which is appointed by the Ministry of Treasury, who chooses the candidates from the list presented by the ministry officials. The supervisory board composition therefore depends on the administrative and political powers. Moreover, the fundamental decisions concerning SOEs are taken by the general meeting of shareholders where the State is represented by the Minister, i.e., a politician and member of the government. The influence of political and administrative factors on SOEs is therefore a key feature of their construction.

6. Conclusions

In this paper, we incorporated two streams of literature, that is agency theory and upper echelons theory, to the study of autonomy strategies of SOE managers. We focused on barriers to privatisation of SOEs posed by managerial mindset. We set our study in Poland, a post-transitional economy, struggling with the problem of 'unfinished privatisation'. We conclude that the managerial support for privatisation of SOEs is directly linked to the perceived level of managerial autonomy and indirectly linked to firm performance. Severe restrictions to managerial autonomy induce managers to seek a radical change of a status quo, that is, support privatisation. Conversely, a high level of decision-making latitude induces inertia and resistance towards privatisation. Moreover, managers of high performing SOEs are more inclined to develop a positive attitude towards State control and, consequently, resist privatisation.

Our findings have a number of practical implications. Considering the fact that Polish SOEs were created as a transitional form between state and private ownership, privatisation should be the underlying goal of SOE managers. However, we reveal that privatisation efforts may meet with strong resistance from managers who enjoy a high level of autonomy in SOEs. Acting in their self-interests (Hambrick 2007), they are inclined to protect the status quo, i.e., maintain State control. In order to facilitate privatisation, it is important to reconsider the structure of incentives of managers in SOEs.

The current remuneration policies in Polish SOEs pose a salary limit to CEOs of SOEs. This limit does not apply to SOEs in which the State ownership is below 50%. Therefore, some managers may be supportive of (at least partial) privatisation, as they may expect a significant increase in salary. However, this relates only to those who expect to maintain their position in the company after privatisation. Others may hope for an attractive severance package. In light of our findings, we argue that stronger incentives are needed in order to reduce managers' resistance to privatisation. Moreover, privatisation efforts undertaken within the company should be monitored by the State, providing a reference point for the corporate governance system in SOEs.

Our findings are tempered by some limitations. First, as we use cross-sectional data, we are unable to test the effects of managerial autonomy, attitude towards state control, and firm performance on support for privatisation in a strict sense. Second, as our data comes from a single country (Poland), the representativeness of our sample is limited. Third, our research design does not allow for a nuanced measurement of variables (e.g., firm performance). We therefore encourage further research on the issue of managerial discretion in SOEs, relating both to its antecedents (i.e., what are the determinants of managerial discretion in SOEs) and consequences (i.e., how does managerial discretion in SOEs influence managers' support for privatisation and how is it related to performance outcomes), preferably in a multi-country context.

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