

Abstract

We use new firm-level data to examine the effects of firm divestitures and privatization on corporate performance in a rapidly emerging market economy. Unlike the existing literature, we control for accompanying ownership changes and the fact that divestitures and ownership are potentially endogenous variables. We find that divestitures increase the firm's profitability but do not alter its scale of operations, while the effect of privatization depends on the resulting ownership structure – sometimes improving performance and sometimes bringing about decline. The effects of privatization are thus more nuanced than suggested in earlier studies. Methodologically, our study provides evidence that it is important to control for changes in ownership when analyzing divestitures and to control for endogeneity, selection and data attrition when analyzing the effects of divestitures and privatization.

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