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Privatization Effect on Shareholder Value in the Jordanian State Owned Enterprises

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ABSTRACT

Privatization is the act of reducing the role of government or increasing the role of the private institutions of society in satisfying people's needs; it means relying more on the private sector and less on government. The Jordanian government adopted a privatisation program in 1996 to enhance the efficiency and productivity of government owned companies. The principal objective of this study is to examine the effects of the privatisation program on enhancing the performance of state-owned enterprises in Jordan. Data from 23 companies covering the period from 1996 to 2013 have been used to test the research hypotheses. The data was then analysed using dependent samples t-tests and multiple regression analysis. The results analysis shows that the privatisation program had a significant positive relationship with shareholder value in the Jordanian state owned enterprises.

Keywords: Privatization, State Owned Enterprises, Shareholder Value
JEL Classifications: L32, L33

1. INTRODUCTION

Over the past decades and due to the global competition and changes in the global market during the 1980s, the market shifted to internationalization (Maditionst et al., 2009; Tortella and Brusco, 2003). Governments switch to privatization programs to increase performance efficiency and improve the economic situation (Megginson, 2016; Rahbar et al., 2012). Privatization from the government's viewpoint enhances public companies' performance, and solves the social, economic and political issues resulted from the governmental poor role in managing and monitoring the state-owned enterprises (Clarke et al., 2005; Shirley and Walsh, 2000).

Governments believe that the private sector is outperforming the public sector due to the nature of the activities, procedures, optimal uses of resources and the clear goals (Seppälä et al., 2001). It is becoming quite hard to find a country that has not adopted a privatization program or at least included it in their policy agenda (Kikeri and Nellis, 2004). Rahbar et al. (2012) defined privatization as a government attempting to allocate some or all of its state owned enterprises by transferring the ownership to the private sector. Mansfield and Pollins (2009) defined Privatization as a transfer of the control and/or ownership of business and industry from the public realm to the private sector. In 1961 the German government sold the majority of Volkswagen stocks by issuing public shares which known later as the first privatization transaction (Kouser et al., 2012).

The program was founded for the first time in the United Kingdom under the Thatcher government in 1980. The British government felt disappointed with the SOEs' weak indicator related to companies performance, and shifted to the privatisation program (Megginson, 2016; Carter, 2013; Kouser et al., 2012; Boutchkova and Megginson, 2000; Souza and Megginson, 1999; Burton, 1987).

After the adoption from the United Kingdom, many countries have followed and adopted privatization programs like Denmark, Chile, Malaysia and Singapore. These countries have believed in the program's ability in enhancing governmental companies' performance (Kouser et al., 2012). After 1987, the program spread very fast worldwide, especially in Brazil, South America, Mexico, Africa, Bangladesh, and South Asia by issuing public shares or selling to another company (Kikeri and Nellis, 2004). Privatization as a global phenomenon has captured the scholars' attention to study the potential effects of the program. The vast spread of privatization program worldwide had encouraged many countries to change their governmental companies' ownership (Boubakri et al., 2013; Ramadan, 2011; De Groote et al., 2005; Pompo and Ramirez, 2003; Sun and Tong, 2002). Waterhouse (1989) documented that there are some common reasons encouraging governments to implement privatization as follow:

- Raise the revenue for the state
- Promote increased efficiency
- Reduce government interference in the economy
- Promote wider share ownership
- Provide the opportunity to introduce competition
- Expose SOEs to market discipline

Governments believe that the private sector outperforms and more efficient than the public sector in terms of business results (Carter, 2013; Boubakri et al., 2013; Kouser et al., 2012). The political interference in business leads to a distortion of business objectives, and increased restrictions faced by managers. In addition, the weak monitoring of government companies decreases the motivation among workers (Marcelin and Mathur, 2015; Nabin et al., 2014; Delfgaauw and Dur, 2010; Francois, 2000; Shleifer and Vishny, 1994; Vickers and Yarrow, 1989). This requires restructuring the state-owned enterprises to reduce government interference in the economy.

The global trend in privatization for the period 1991-2016 can clearly be seen in the following table. Table 1 shows the worldwide revenues from privatization US$ Billions.

Francois (2000); Laffort and Tirole (1993) studies the privatization effect on changing the company's performance from the agency theory perspective, and assured that changing the incentives for managers by implementing a privatization program could lead to reducing the agency conflicts and improve companies' performance. Incentives have to be offered in order to motivate agents adjusting their aims to be in line with shareholders' interests instead of acting merely out of self-interest (Macías, 2002).

A free market economic system was adopted in Jordan, this gives the private sector the main role in economic activity in order to reach an equitable distribution of gains, and achieve economic and social development (Gowland and Aiken, 2003). However, numerous factors led to the development and expansion of the public sector role in economic activity over the years, especially during the seventies and eighties, which led to reducing the contribution of the private sector in this activity (Executive Privatization Commission, 2014). Based on EPC (2014) first factor is meeting the growing need for infrastructure development, and it should be noted in this regard that the expanding role of the public sector has been concentrated mainly in infrastructure projects such as telecommunication, education, health, energy, transportation, water, and social welfare.

Table 1: Worldwide Revenues from Privatization 1991-2016

Year	Amount US Billions	Year	Amount US Billions
1991	48	2004	98 (↑)
1992	32 (↓)	2005	140 (↑)
1993	60 (↑)	2006	120 (↓)
1994	80 (↑)	2007	140 (↑)
1995	85 (↑)	2008	115 (↓)
1996	100 (↑)	2009	270 (↑)
1997	160 (↑)	2010	215 (↓)
1998	140 (↓)	2011	90 (↓)
1999	140 (No Change)	2012	185 (↑)
2000	182 (↑)	2013	200 (↑)
2001	45 (↓)	2014	215 (↑)
2002	75 (↑)	2015	325 (↑)
2003	49 (↓)	2016*	270 (↓)

*: Until October 2016. Source: Megginson (2016)

Second factor is addressing the economic and social crises synchronizing with private sector reluctance to invest in projects that require large capital, and the availability of financing to government representatives in foreign aid and loans has played a major role. To meet these challenges, Jordan has taken upon itself to implement national programs of economic reform aimed to restore fiscal and monetary stability, and to create a structural correction to provide a suitable environment for the resumption of acceptable and sustainable growth. The indicators show that there were tangible successes on some levels regarding cash stability and build an appropriate level of reserves. Thus, there is a need for more effort and more trends towards privatization to continue with the same stream of success (Al-Rabadi, 2003; Ammari, 2002).

An effective and efficient private sector plays an important role in stimulating the economic development of country (Ramadan, 2011; Kouser et al., 2012; Makokha, 2013). Scholars have suggested that the development of financial sector provides a reliable prediction about the economic development of the country in the foreseeable future (Megginson, 2016; Boubakri et al., 2013). That is why the global phenomenon "Privatization" has experienced tremendous growth over the last few decades around the world (Rahbar et al., 2012).

Scholars have done a masterful job of articulating privatization program effect on companies' performance, but no final and clear conclusion can be drawn (Rahbar et al., 2012; Amess and Robert, 2007). Many studies have highlighted the effect of privatization on enhancing the governmental companies' performance in the developed countries, while developing countries require more studies (Megginson, 2016; Avsar et al., 2009).

Since the early 1980s many developing countries had implemented privatization program following a lead from the developed countries, thus, the ownership of a vast number of state owned enterprises had been transferred to the private sector (Carter, 2013; Rahbar et al., 2012; Kouser, 2012).

Despite the tremendous efforts in assessing the effect of privatization on companies' performance but no final and clear conclusion can be drawn, as well, research on the success/failure of this change of ownership has generated some interesting debate on the actual effects of the privatisation program (Carter, 2013; Boubakri et al., 2013; Avsar et al., 2009).

Previous studies argued that performance under private ownership is superior, as well these studies supported the positive impact of privatization (Amess and Roberts, 2007; Brown et al., 2006; Okten and Arin, 2006). Other researchers stated that public ownership should not be considered a barrier preventing companies from being more efficient in the market (Saygili and Taymaz, 2001; Wang, 2005).

Scholars study the impact of privatization on enhancing the state owned enterprises' performance and recorded a positive impact on profitability, efficiency, productivity, as well a decreasing in the companies' debt but few number of studies addressed the effect on the shareholder value (Megginson, 2016; Alaei and Anderson, 2014; Boubakri et al., 2013; Carter, 2013; Mohammad, 2012; Ramadan, 2011; Shukla, 2009). Similarly, Nazir and Afza (2009) pointed out the privatization ability in enhancing the governmental companies' performance.

Despite the long history of privatization, most of the studies were conducted in developed countries, while few studies have been conducted in developing countries including Jordan (Ramadan, 2011; Gowland and Aiken, 2003). The shortage of studies that examine the effect of privatization on state owned enterprises' performance in Jordan provides a wide unexplored area to understand the changing in performance due to the changing in ownership.

Within this gap in the literature, and to bring this plan to actualization, it is a crucial agenda for the researchers to check the effect of privatization on state owned enterprises' performance in Jordan. The Central Bank of Jordan have announced in 2015 that the GDP growth in Jordan was 2.4%, which reflects an unexpected deceleration in the first quarter of the year due to the low percentage from the public sector participation, while real GDP growth is forecasted at 3% in 2016, reflecting additional investment projects in the medium term.

The above statistics clearly reveals the unsatisfactory results of companies under the government's authority with a limited appearance of the private sector. From the above discussion it is clear that privatization affects the companies' performance and literature review reveals the same.

In the above discussion, we have seen that many countries have adopted privatization program in order to improve the state owned companies' performance in international level. This study examines privatization's ability in improving performance indicators in the Jordanian companies in terms of increasing shareholder value. The specific objective of this research is to check whether privatization affect shareholder value measured by economic value added (EVA) and shareholder value added (SVA) in the governmental Jordanian companies. If so, to find out the relationship between privatization and shareholder value, the researcher set the following hypotheses.

H1: There is a positive relationship between privatization and EVA in the governmental Jordanian companies.

H2: There is a positive relationship between privatization and SVA in the governmental Jordanian companies.

2. LITERATURE REVIEW

Agency theory is dealing with managing the relationships between principal-agent (Eisenhardt, 1989; Jensen and Meckling, 1976). Based on agency theory, a government in privatisation is the principal, and the agents are the privatised enterprises. The government is representing public interests with the goal of fostering economy, maximising social welfare, and maintaining a high level of employment. The existence of agency relationship creates agency problems due to the different objectives between the shareholders and the management (Krause and Bruton, 2014; Westphal and Zajac, 2013; Wiseman et al., 2012).

Privatized organizations are focusing on maximizing their profit and shareholder wealth (Wiseman et al., 2012). The conflicting and competing goals, as well different risk preferences between government and privatized firms increased Principal-agent problems (Saltaji, 2013; Fong and Tosi, 2007; Gomez□Mejia and Wiseman 2007; Bonazzi and Islam, 2007). Eisenhardt (1989) argued that the principle of agency theory assumes that in both private and public companies, the managers work hard to maximise the profits.

Over the past two decades, the political theory of shareholder value has become entrenched as a precept of corporate governance among companies located in the United States and Britain (Lazonick and O'sullivan, 2000). Creating and measuring shareholder's value has becoming an important issue for discussion around the world, because it gives a clear image and perception about the company's performance (Chari, 2009; Shukla, 2009). Marshall (1975) mentioned that companies create value when the return exceeds the price of capital. Chari (2009) defined shareholder value creation as any return which exceeding the cost of capital. Shareholder value is created when profitability exceeds investor expectations as measured by the cost of capital (Shukla, 2009).

Black and Wright (2001) defined shareholder value as the difference between the corporate value and the debt. Dalborg (1999) assured that value is created when the amount return to the shareholder in the form of dividend and capital appreciation exceeds the risk-adjusted rate of return required in the stock market. Stancic et al. (2012), Burksaitiene (2015) and Copeland et al. (2000) stated that companies should be aware how to allocate their resources effectively, and managers must focus on building shareholder value as a part of their responsibility by actively engaging in the procedure of identifying good investment opportunities.

Kapoor (2006) defined shareholder value as any potential growth in share price or earning, due to management performance, and its capability to maximize free cash flow with the passage of time. Stancic et al. (2012) stated that if the return on invested capital exceeds the weighted average cost of capital (WACC), then the value is created.

Mauboussin (2011) argued that there was a big misunderstanding according to the shareholder value definition, because the majority believe that shareholder value is created when the short-term for the share price is maximised. It is also and in the early stage to build value for a company, then the share price will follow and reflect this enhancement, so the main goal here is building value. Financial managers should care about shareholder value because if shareholders feel unsatisfied, they can simply change their investment or at least change the management (Brealey and Myers, 2000). Indeed, shareholder value is a standard to evaluate the companies' performance(Koslowski, 2000).

Copeland et al. (2000) pointed out that the most important idea from measuring the shareholder value is to help the managers to make value created decisions, and orient all employees towards value creation. The investors in the stock market al.ays seek to gain high returns on their investment (Hasani, 2012). Scott (1998) added that shareholder value is another term for the total value of equity of a firm or its market capitalization. Many shareholders believe in the "bird in the hand" theory, so, it is easy to find them more inclined to dividends, rather than to the capital gains, this could be explained as a reducing risk (Gorden, 1962). Because of the rapid changing the traditional perception of business motivation, companies are focusing more on wealth creation, as well as increasing share price, dividends and earnings (Shukla, 2009).

Sajid et al. (2012) after examining 75 Pakistani companies were listed on Karachi Stock Exchange during 2005–2010 period to check the effects of the dividend policy on the shareholder wealth, assured that company's share price is an index which reflects the company's value in the market. They mentioned that a company in general tries to maximise its market value by maximising the shareholder wealth, which is the ultimate goal of the company.

Fernández (2001) studied 142 companies in the period 1991-1999; he mentioned that companies create value for the shareholder when the actual shareholder return exceeds the expectation return to equity in 1 year, or in other words, when the company outperforms expectations.

Furthermore, Campa and Hernando (2004) highlighted nine principles companies should follow in order to create value for shareholders as mentioned below:

- Make strategic decisions that maximize expected value even at the expense of lowering near-term earnings
- Make acquisitions that maximize expected value even at the expense of lowering near-term earnings
- Carry assets only if they maximize value
- Return cash to shareholders when there are no credible opportunities to invest
- Reward CEO's and senior executives for delivering superior long-term returns.

Fernández (2001) mentioned that companies create shareholder value when the shareholder return exceeds the required return. This process starts with increasing equity market value, moving to SVA, then to shareholder return, lastly to required return on equity, and the last step is reaching shareholder value creation. EVA and SVA were implemented in this study to check the effect of privatization on the shareholder value in the Jordanian companies. SVA is defined as the changes that happened to the shareholders' wealth during the given year and the year before (Fernández, 2001).

EVA is one of these methods which was introduced and trademarked by Stern Stewart (Stewart, 1994). It is a management technique developed to compute the economic value created by the firm over a period of time (Stern, 1985; Stewart, 1994; Stern et al., 1995). It is the change in the net operating profit after taxes (NOPAT), minus the change in the cost of the capital used to generate this NOPAT (Rappaport, 1998).

Furthermore, Stewart (1994) defined EVA as the profit generated by the company, minus the cost needed to feed and generate these profits. Rappaport (1998) mentioned that EVA depends on four elements:

a. Firm operating profit
b. Taxes
c. Debt level
d. Cost of capital.

The aim of the EVA is to provide management with a measure of their success in increasing shareholder's wealth. It is a measure of how much the company made for the shareholders (Jog and Holst, 1997). The main objective for any kind of business is to create and deliver value for the shareholder in order to make them satisfied. Researchers have studied the changes in the shareholder value after implementing the privatization program.

Dewenter and Malatesta (2001) studied the privatisation effects on shareholder value and shareholder return. They used a large sample of 63 from the UK, Poland and Hungary. The study assured that, companies after privatisation, outperform the public companies. They added that the privatisation program has significant effects on the shareholder return in the long-term. Otchere (2005) studied 314 industrial companies, 121 companies of which were privatized. He documented that the share price and performance for privatized companies beat the competitors' performance without privatization.

These results did not resemble the banking sector, according to his study, which tested 46 banks, 18 of which were privatized, because of the nature of the banking sector and its characteristics. Furthermore, Shukla (2009) tried to provide an easy way to know how to create shareholder value and measure business performance. The study also attempted to present a clear image of how shareholder value is created, in order to provide a background for measuring shareholder value, as well, to establish the relationship between SVA and market value added.

Moreover, Furrer et al. (2007) tested the impact of corporate strategy on shareholder value in turnaround and decline situations. The study documented that the beta excess return measures captured the hypothesized relationships between strategy and shareholder value for the sample firms studied.

Sajid et al. (2012) examined 75 companies listed on the "Karachi Stock Exchange" from 2005 to 2010 to check the influence of dividend policy on shareholder's wealth. They found in that the difference in average market value relative to book value of equity is highly significant between dividend paying companies and non-paying companies. Moreover retained earnings have insignificant influence on the market value of equity. Lastly, there is a significant influence of dividend policy on the wealth of shareholders as far as the dividend paying companies are concerned. Despite there are many studies on privatization and its effects on companies performance, there is still a need for further studies in Jordan to reduce the existing gap.

Research at the international level indicates that privatization does impact the value created for shareholders. In the Jordanian context, there is no research to establish the relationship between privatization and shareholder value. Hence, the present paper aims at finding out whether privatization impacts shareholder value in the Jordanian context. If it affects, the next question is what the underlying relationship is.

3. RESEARCH METHODOLOGY

3.1. Operational Definitions

In this research, the following terms will be used:

a. Full privatization: The transfer from the public to the private sector assets in terms of ownership, management, finance, or control (The International Labour Office ILO, 2001). This concept contains a wide range of practices such as asset sales, public-private partnerships, public market liberalization, franchises, user fees, internal market arrangements, and contracting out.
b. Partial privatization: The procedures of selling the shares which do not give the right to control or ownership in the stock market, and keep the management under the government's hand and do not switch it to the private sector or private owner (Gupta, 2005).
c. Shareholder value creation: The growth in share price, dividends and earnings, which come from strategic decisions, could help the management to deliver this value to the investors, and the company's ability to raise free cash flow (Shukla, 2009).
d. Jordanian companies: The 23 companies chosen to be the population of this study. All companies have experience with privatization and are registered with the Jordanian Ministry of Industry and Trade.

3.2. Data

Giusti et al. (2012) defined the data collection as the research heartbeat. They added that data collection methods consist of a detailed plan of procedures aim to gather data for specific purposes, such as answering a research question or to test a hypothesis. Secondary data was collected from databases and annual reports from the companies' financial statements to test the hypotheses and achieve the study's objectives. It is necessary to find reliable data sources to avoid misleading results. The nature of this study is quantitative, and the data fit for this study is classified under secondary data, which is a type of financial information and obtained from the companies' annual appraisal, and companies' disclosures.

Annual financial data for the 1996-2013 period of companies available on the Amman Stock Exchange were obtained. The data were obtained from various databases. Any additional data required for this study obtained from the Executive Privatization Commission EPC and Jordan Investment Corporation JIC. Data in ASE Amman Stock Exchange, which was the primary source, starts from the year 1996, and it was a good year to start because the privatization program in Jordan started in 1996. Public shareholding companies, limited liability companies, general partnerships, limited partnerships, private shareholding companies, and foreign companies operating in Jordan are required to prepare annual audited financial statements within 90 days from fiscal year-end based on the Companies Law (22/1997). Moreover, sound accounting records should be kept, and annual audited financial statements in accordance with International Financial Reporting Standards should be presented. Thus, it is safe to be assured that the financial data of sample companies are consistent with the international standards.

The total of 2496 firm-year observations covering a period of 18 years (from the year 1996 to 2013) was used for this study. The data was for 5 years prior to privatization i.e., (1998-2002) and 5 years after privatization i.e., (2008–2012) of the former state-owned enterprises (Otchere, 2009). This study implemented SVA and EVA as the proxies' measure to represent shareholder value. Privatization is used as an independent variable, measured by privatization percentage.

3.3. Independent Variable

Privatisation (PRIV) is the independent variable that lies between 0 and 100, measuring the percentage of equity that is private in a firm in a given year, consistent with Megginson and Netter (2001), Gupta (2005).

3.4. Dependent variables

Shareholder value maximization is the main objective firms' pursuit (Wallace, 2003). Shareholder value gives an indicator of how much companies' made for their shareholders (Holst, et al., 2010). The calculation of shareholder value takes in consideration the cost needed to generate the profit (Stewart, 1994). Shareholder value is measured in two ways namely SVA and EVA; the most popular proxies to measure shareholder value consistent with Pompo and Ramirez (2003), Sun and Tong (2002), Andreasson (1998). Measuring shareholder value gives a clear perception of companies' performance (Chari, 2009; Shukla, 2009).

SVA is calculated by net operating profit after tax NOPAT, minus the cost of capital Consistent with Stancic et al. (2012), Lambert and Burduroglu (2000). Also, EVA is calculated by the net operating profit after tax NOPAT, minus invested capital multiplying with WACC consistent with Black and Wright (2001), Jones et al. (2007). Following the test of normality, logarithm transformation is applied to both SVA and EVA. The transformations are consistent with previous studies like Sajid et al. (2012).

4. FINDINGS

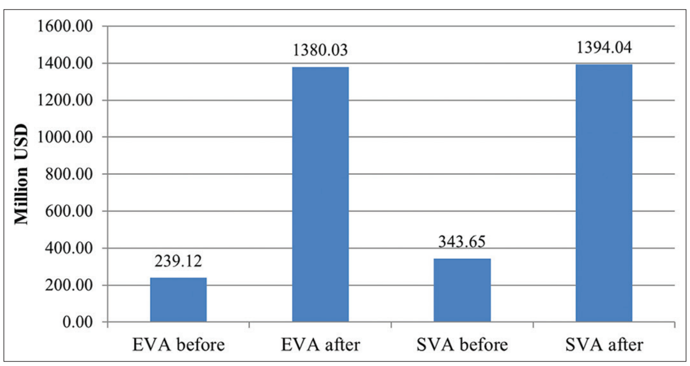
A paired-samples t-test was conducted to compare EVA in the Jordanian companies pre- and post-privatization as shown in Table 2. A significant difference in the scores for pre-privatisation (M = 2299257, SD = 4301921) and post-privatization (M = 13269535, SD = 40697756) conditions; t(103)=2.94, P = 0.004. These results suggest that privatization increased EVA. In other words, companies in Jordan increased their EVA after privatization. Related to the SVA, there was a significant difference in the scores for pre-privatisation (M = 3304335, SD = 8621958) and post-privatization (M = 13404213, SD = 43291022) conditions; t(103)=2.50, P = 0.014. Similarly, the results indicate that privatization increased SVA.

Figure 1 shows a comparison between the SVA and the economic value added before and after privatization.

Based on Figure 1, it is clear that shareholder value increased after privatization in terms of EVA and SVA. EVA increased as a total of the 23 companies from USD 239.12 million before privatization to USD 1380.03 million after privatization. Similarly, SVASVA increased as a total of the 23 companies from USD 343.65 million before privatization to USD 1394.04 million after privatization. The results suggest an enhancement in the shareholder's wealth, could be attributed to the aligning between managers' activities and shareholders' interests in the privatized companies (Jensen and Meckling, 1976; Bishop and Thompson, 1992).

Privatization in the Jordanian companies is proposed to have a significant positive relationship with shareholder value measured by EVA, and SVA. Table 3 shows that there is a significant positive relationship between privatization and shareholder value measured by EVA and SVA.

Figure 1: Shareholder value before and after privatization



Model 1 shows that coefficient of privatization is (Coef = 0.252, P = 0.009) for the EVA. Also, model 2 shows that the coefficient of privatization for the SVA is (Coef = 0.024, P = 0.031). Thus, H1 and H2 are supported. There is a significant positive relationship between privatization and shareholder value measured by EVA and SVA.

5. DISCUSSION AND CONCLUSION

This study hypothesized that privatization program affects shareholder value measured by EVA and SVA. Therefore, two hypotheses (H1 and H2) were introduced, depicting the effect of privatization on shareholder value in Jordanian companies.

The controversy regarding performance appraisal of private and public ownership are still alive in the economic literature. The main reason is the different objectives of ownership structure and lack of consensus on performance measurement criteria. The success privatization stories have created strong waves of privatization transactions worldwide. Megginson (2016) documented that governments worldwide raised USD 218.8 billion through privatization sales during 2014, substantially more than the USD 193.7 billion totals for 2013 and the second-largest total on record. Companies in Jordan have adopted privatization program, and the transactions' revenues reached at the end of 2002 USD 861 million, while the amount increased and reached USD 2.46 billion as of 31-12-2012 (Executive Privatization Commission, 2014).

Agency theory illustrates that manager activities in the privatized companies are directed and be more aligned with shareholders' interests, synchronizing with a reduction of their opportunistic behaviour due to linking of their salaries with the companies' performance (Bishop and Thompson, 1992). Moreover, Laffont and Tirole (1993) highlighted the difficulty of monitoring managers in state-owned enterprises due to the absence of both of the manager and incentives to monitor managers.

The current research reveals that privatization has no relationship with shareholder value in the Jordanian companies. One possible reason for the non relationship between privatization and

Table 2: Paired Samples T-test Results

Variable	Mean Pre	Mean Post	Mean Difference	T-statist- difference	P
EVA	2299257	13269535	10970278	2.938**	0.004
SVA	3304335	13404213	10099878	2.504**	0.014

SVA: Shareholder value added, EVA: Economic value added

Table 3: Coefficients for predictors of shareholder value models

Model 1 (EVA)				Model 2 (SVA)			
Variable	Coefficient	t	P value	Variable	Coefficient	t	P value
Constant	5.768	47.729	0.000	Constant	5.873	42.684	0.000
PRIV	0.252	1.370	0.009	PRIV	0.024	0.117	0.031
R^2	87%			R^2	69%		
F-Value	4.725			F-Value	7.331		
Obs.	208			Obs.	208		

shareholder value is the measurement tool. Shareholder value influenced positively by privatization, but the main point that shareholder value calculation took into consideration the cost of capital and based on this the value of a company depends on the yield and cost of capital employed (Lovata and Costigan, 2002).

Companies in Jordan use the same method and the cost of capital implemented in the calculation equation. Based on Ramadan (2011) Jordanian companies need to expand and increase their size in order to crater value for the shareholder. The results of the study are in line with O'toole et al. (2016) who reveals that there is no relationship between privatization and shareholder value or shareholder value creation.

Liao (2014) found that privatization did not change the SOEs operating efficiency or corporate governance. As well, no value delivered for the shareholders. Government in Jordan still has some control in few privatized companies and this could be one reason for the non-creation of shareholder value. The previous result documented by Chen et al. (2009) who argued that companies can record a significant performance improvement after a transfer of ownership control, but only when the new owner is a non-state entity.

Wickramasinghe (1996) found that privatization did not lead to increased shareholder wealth or companies efficiency after he tested the effects of privatization on a sample of Sri Lankan companies. Uddin and Hopper (2003) tested the effects of privatization on shareholder value. The study concluded that shareholder value did not increase after privatization, as well as, a large number of shareholders were affected negatively.

Pompo and Ramirez (2003); Sun and Tong (2002) provided evidence that the relationship between privatization and shareholder value is positive and significant after they examined the effects of privatization on shareholder value. They argued that the incentives in the private sector play an important role in changing the new manager's behavior; it reduced the agency conflicts, and push managers to make shareholders more satisfied. Therefore, Jordanian government should be more aware how to deal with the agency conflicts and increase the shareholders wealth.

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