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Hamdi Ben-Nasr

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State and Foreign Ownership and the Value of Working Capital Management

Hamdi Ben-Nasr*
College of Business and Economics
Qatar University
hbennasr@qu.edu.qa

Abstract

In this paper we examine whether state and foreign ownership affect the shape of the value-Net Working Capital (NWC) curve. Using a multinational sample of privatized firms from 54 countries, we provide documentation indicating that the value-NWC curve is U-shaped. We show that shareholders value less (more) increasing NWC in government-controlled (foreign-controlled) firms with a low level of NWC when compared to their non-government-controlled (non-foreign-controlled) peers. These findings are robust to the use of alternative ownership and NWC proxies and when we address endogeneity issues. Furthermore, we find that the negative (positive) relation between state (foreign) ownership and the value of NWC is stronger in firms that are less financially constrained (from countries with strong governance institutions), especially at a low level of NWC. Collectively, our results highlight the importance of ownership type for the value of investment in NWC.

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Keywords: Ownership structure; Privatization; Working capital management; Valuation.

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