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Narjess Boubakri, Sadok El Ghouli, Omrane Guedhami, William L. Megginson



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The Market Value of Government Ownership

Narjess Boubakri
American University of Sharjah, PO Box 26666, Sharjah, UAE
Tel: +971 6 515 2587
nboubakri@aus.edu

Sadok El Ghoul
University of Alberta, Edmonton, AB T6C 4G9, Canada
elghoul@ualberta.ca

Omrane Guedhami
University of South Carolina, Columbia, SC 29208, USA
omrane.guedhami@moore.sc.edu

William L. Megginson
University of Oklahoma
King Fahd University of Petroleum & Minerals
wmegginson@ou.edu

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Abstract

Motivated by the recent rise of state capitalism, this paper investigates the effects of government ownership on market valuations across a sample of publicly listed corporations from East Asia. We find strong, robust evidence that government-owned firms exhibit higher market valuation than non-government-owned firms, but the relation is not linear. The benefits of government ownership in terms of value premium extend to closely held firms where the government is a second blockholder. These effects stem from the financing decisions of government-owned firms and from the discount rate of cash flows, and hold prior to and during the recent global financial crisis. Additional analyses suggest that the effect of government ownership on valuation is influenced by financial market development and the quality of government and institutions in place. Collectively, our results imply that government involvement in private firms can be valuable.

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Please address correspondence to:

William L. Megginson
Price College of Business
307 West Brooks, 205A Adams Hall
The University of Oklahoma
Norman, OK 73019-4005
Tel: (405) 325-2058; Fax: (405) 325-7688
e-mail: wmegginson@ou.edu

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