THE GOVERNANCE OF PUBLIC COMPANIES FACED WITH THE CHALLENGES OF ASYMMETRIC INFORMATION

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Abstract - Today, public enterprises play an important role in the provision of essential services, without exclusion or rivalry. They make a significant contribution to job creation, providing sustainable support for economic growth. However, their operation is often hampered by problems of governance and information asymmetries. This article sheds light on agency theory, which provides a relevant framework for understanding the relationship between shareholders and managers in public companies, with a focus on delegation of power, accountability and risk management. Our aim is to explore the relationship between governance and information asymmetries in public companies, and to analyze the challenges involved in the Moroccan context.

Keywords - Governance, Public Companies, Information Asymmetry, Agency Theory.

I. INTRODUCTION

As state-owned or state-controlled enterprises, SOEs occupy a unique position in the economy. Their role is often dual, serving both economic and social objectives. They operate in strategic sectors such as energy, water, transport, health and education services, where collective interests and economic needs are closely intertwined. Governance of public enterprises is essential to determine how these organizations fulfill their missions, make decisions and are accountable to society. Governance issues range from transparency, accountability and maximizing benefits for society to managing conflicts of interest between different stakeholders.

In this complex context, agency theory becomes highly relevant. It provides an analytical framework to explore the relationships between shareholders (the state in the case of public enterprises) and executives, shedding light on issues related to the delegation of authority, accountability, and alignment of incentives. Agency theory, notably developed by Jensen and Meckling (1976), proves particularly relevant for understanding how public enterprises can overcome information asymmetries and conflicts of interest inherent in their structure. It poses the fundamental question of how to ensure that managers act in the public interest, despite uncertainties and opportunities for abuse associated with the delegation of power.

Faced with these challenges, a fundamental question arises:
« How can an effective governance framework be designed and implemented for public enterprises, while managing informational asymmetries that may compromise their operation and performance? »
This issue raises essential questions about transparency, accountability, and risk management within public enterprises, as well as the role of regulatory and supervisory authorities in promoting responsible and equitable governance.

II. LITERATURE REVIEW

A. Theoretical Aspects of the Foundations of Public Company Governance

The governance of public companies poses unique challenges, particularly because of the information asymmetries inherent in this type of organization. In contrast to private companies, where market mechanisms and clear ownership structures often allow for better oversight and alignment of interests between owners and managers, public companies face additional complexities. Information asymmetries arise when the management of a state-owned company has more information about the company's operations and performance than the representatives of the state, the owners. This imbalance can lead to inefficiency, suboptimal decision making, and opportunistic behavior. Effective governance of state-owned enterprises therefore requires robust mechanisms of transparency, accountability, and regulation to mitigate the negative effects of information asymmetry and to ensure that public objectives are pursued effectively and with integrity.

Ronald Coase's pioneering paper, "The Nature of the Firm," laid the groundwork for organizational economics by raising fundamental questions about why certain economic activities take place within firms rather than in markets. He suggested that firms are created to minimize transaction costs, including bargaining and organizational costs. This idea is particularly relevant to the governance of state-owned enterprises, where the state can take control to reduce transaction costs in providing public goods and services. This approach is complemented by the work of Adolphe Baer and Gardiner Means, who analyze the separation of ownership and management in large corporations and raise the question of how to ensure

that managers act in the public interest in the case of shareholders and state-owned corporations.

Eugene Fama and Michael Jensen developed agency theory to examine contractual relationships and conflicts of interest between corporate stakeholders, especially shareholders and managers. This theory emphasizes the challenges of shareholder (or state, in the case of state-owned enterprises) control of management and the need for control mechanisms to ensure that management acts in the best interests of the company and society.

Oliver Williamson, using transaction cost theory, emphasized the importance of organizational structure and decision making in minimizing these costs and suggested that ownership and governance structures should be designed to reduce transaction costs.

Other authors, such as Jean Tirole, Yves Simon, Jean-Jacques, and John Kay, have deepened their analysis of public company governance by focusing on regulatory mechanisms and governance models. For example, in his book, The Economics of the Public Interest, Tirole examines how effective regulation can be designed to maximize social welfare, emphasizing the importance of independence and transparency of regulators.

Yves Simon, in his book, Governance of Public Enterprises, examines the challenges unique to public ownership and proposes appropriate governance mechanisms. In "The Regulation of Public Enterprises", Tirole discuss pricing, subsidies, performance monitoring are discussed. Finally, in The Truth about Markets, John Kay warns against the dangers of pure shareholder-centered governance in the public sector and argues for balanced governance that takes into account the interests of all stakeholders. These theories and analyses contribute significantly to our understanding of public sector governance and highlight the specific challenges associated with public ownership, regulation, and maximizing social value.

B. Agency theory

Agency theory examines the relationships between principals (owners or decision-makers) and agents (managers or individuals who execute decisions on behalf of principals). Agents often have better information about the operational details of the company than principals. Due to information asymmetry, agents may be incentivized to act in their own interest at the expense of principals.

This creates a potential conflict of interest, where agents may seek to maximize their well-being rather than maximizing value for principals.

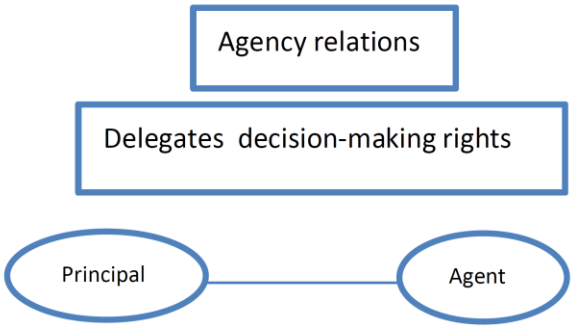


Figure 1: Schematization of agency theory

Created: by the author

Agency theory stands as one of the key theoretical frameworks for understanding information asymmetry. It focuses on the relationships between economic agents, such as shareholders and corporate executives. In many situations, executives have access to more information about the company's performance than shareholders. This information inequality can lead to conflicts of interest, where executives may be tempted to maximize their personal gains at the expense of shareholders. Agency theory proposes monitoring and incentive mechanisms to align the interests of executives with those of shareholders and minimize opportunistic behavior.

Agency theory is one of the most important theoretical frameworks for a deep understanding of the impact of information asymmetry in contractual relationships, especially between owners (referred to as principals) and managers (referred to as agents). This theory provides profound insights into how incentives, contracts, and monitoring mechanisms can be used to manage conflicts of interest arising from information asymmetry.

III. METHODOLOGY

For this empirical study, we have selected multiple linear regression as the primary statistical method instead of logistic regression, due to its suitability for analyzing the relationship between continuous dependent variables and multiple independent variables. We will adapt the methodology accordingly to reflect the use of multiple linear regression in our analysis of information asymmetry determinants in public enterprises in Morocco.

In our approach, we will model the presence of information asymmetry as a function of independent variables, taking into account the results of previous analyses. For instance, our findings indicate that both governance and company size can significantly affect information assymetry, while government regulation does not exhibit a significant effect. We will develop a multiple linear regression model to examine how the independent variables, including company size, government regulation, and governance mode, collectively influence information asymmetries.

IV. EMPIRICAL EVIDENCE

A. Current situation in Morocco

In 2021, Moroccan Public Enterprises and Establishments (EEP) saw significant performance improvements, indicating an economic recovery. The overall revenue increased by 21%, rising from 236.002 MDH in 2020 to 285.482 MDH in 2021, with a 13% growth compared to 2019. This upturn is mainly attributed to the OCP Group, which contributed 30% of the sector's revenue, experiencing a 50% surge compared to 2020. Additionally, ONEE and the CDG Group also contributed to this growth, with respective increases of 7% and 54% compared to 2020.1

Forecasts for the 2022 fiscal year indicate a continuation of this trend, with projected revenue of 344.171 MDH, a 20% increase compared to 2021. This growth is primarily driven by expected strong performances from the OCP Group, ONEE, TMSA Group, and ONCF Group.

Regarding financial results, after a decline in 2020, both operating and net results for the EEP sector experienced significant increases in 2021, totaling 31.178 MDH and 16.021 MDH, respectively. This upward trend is expected to continue in 2022, with forecasts of 35.153 MDH for operating results and 34.771 MDH for net results. The improved results in 2021 are largely attributed to the enhanced performance of merchant EEPs, which saw substantial increases in both operating and net results compared to 2020, despite economic challenges faced during that year.

The volume of investments made by Public Enterprises and Establishments (EEP) in Morocco has shown a variable trend over the past few years. It decreased from 72.675 MDH in 2016 to 64.164 MDH in 2021, with a projection of 80.989 MDH for 2022. Investments in 2021 were primarily attributed to the performance of certain EEPs, notably the OCP Group, ONEE, HAO, and AREF. Projections for 2022 indicate a 26% increase compared to 2021, mainly due to the expected performance of these same EEPs, as well as the TMSA Group.

For the year 2023, the projected investments of EEPs amount to a total of 140.500 MDH, primarily due to the performance projections of the OCP Group, ONEE, and MASEN. However, for the years 2024 and 2025, a decrease in the volume of EEP investments is expected compared to 2023, with respective amounts of 127.911 MDH and 106.818 MDH.

Regarding the financial relationships between the state and EEPs, there is a progressive consolidation, with an increase in the proceeds paid by EEPs to the state in terms of dividends and profit shares. These proceeds rose from 9.594 MDH in 2020 to 10.704 MDH in 2021, with projections of 14.138 MDH for 2022. This increase is mainly due to the expected rise in proceeds from the OCP Group, ANCFCC, and IAM.

As for the subsidies granted by the state to EEPs, the total amount reached 40.687 MDH in 2021, with projections of 48.148 MDH for 2022. These subsidies are mainly allocated for operational purposes, investment, and capital endowments, with respective percentages of 59%, 33%, and 8% in 2021

B. Interpretation of empirical results

The multiple linear regression model can be specified as follows:

$$y = \beta 0 + \beta 1X1 + B2X2 + \beta 3X3 + \epsilon$$

Where:
Y represents the dependent variable, which is information asymmetry.
X1, X2, and X3 are the independent variables: company size, government regulation, and governance mode, respectively.
β0 is the intercept coefficient.
β1, β2, and β3 are the coefficients associated with each independent variable, representing the change in Y for a one-unit change in the respective independent variable.

ϵ is the error term, representing the difference between the observed and predicted values of Y.
ANOVA results for the regression model indicate that all predictor variables (regulation, governance, and firm size) significantly explain changes in the dependent variable "asymmetry". This means that the independent variables in the model significantly contribute to the prediction of information asymmetry within the sample under study; the F value is high ($F = 14.627$) and the associated p-value is very low ($p < .001$), further confirming the significance of the model.

Examining the other components of the ANOVA, we see that the variance explained by the regression model (17.280) is greater than the residual variance (14.176). This suggests that the regression model provides a significant explanation of the variance of the dependent variable compared to the model without the model. This indicates that the relationship between the independent and dependent variables is statistically significant.

With respect to multicollinearity, the collinearity statistics show tolerance and variance inflation factor (VIF), all of which are within acceptable limits, suggesting that there are no significant multicollinearity issues among the predictor variables. The overall results presented in the various tables provide additional information on the validity and robustness of the regression model: the ANOVA

confirms the overall validity of the model, and statistical significance ($p < 0.001$) indicates that the independent variables (governance, firm size, and regulation) have significant impact on information asymmetry.

The regression coefficients provide a better understanding of the impact of each predictor variable. Governance and firm size have positive and significant coefficients, suggesting a positive relationship with information asymmetry. Government regulation, on the other hand, shows no significant effect.

The results of the collinearity diagnostic confirm the reliability of the regression coefficients, with no significant multicollinearity problems among the independent variables. However, the strong correlation between governance and firm size and the high eigenvalues of these variables may require further analysis to assess the individual impact of each variable.

These results provide an overview of the relationship between information asymmetry and the variables studied in Moroccan state-owned firms. While these results highlight the importance of governance and firm size in addressing information asymmetry, they also highlight the limitations of the impact of government regulation. These results provide guidance for policymakers as they develop policies to improve corporate transparency and governance.

V. RESULTS

In the context of governance in public enterprises in Morocco, the results of our regression analysis provide significant insights into the determinants of informational asymmetry. Corporate governance is crucial for ensuring transparency and effective information management within public enterprises.

Firstly, our findings highlight the significant impact of governance on informational asymmetry. Better governance, characterized by practices of transparency, accountability, and information disclosure, is associated with a reduction in informational asymmetry. This suggests that public enterprises adopting higher governance standards are more likely to provide relevant and reliable information to stakeholders, thereby reducing information asymmetries.

Secondly, firm size is also a significant factor in managing informational asymmetry. Larger enterprises often have more resources and capabilities to implement effective governance mechanisms, which can contribute to better information management and a reduction in asymmetry. In contrast, smaller firms may face additional challenges in implementing such practices, potentially leading to higher information asymmetry.

However, government regulation was not identified as a significant factor in managing informational asymmetry in our analysis. Several factors may account for this. Firstly, the implementation and effective enforcement of regulations may be uneven, limiting their effectiveness in ensuring transparency and information disclosure. Additionally, some regulations may be insufficient or outdated to address current governance and information challenges. Finally, it is possible that public enterprises have developed circumvention practices or adaptation strategies to avoid regulatory requirements, thereby limiting their impact on informational asymmetry.

VI. CONCLUSIONS

This analysis provides valuable visibility into the governance and performance of Moroccan state-owned enterprises. The structure of the public portfolio, economic and financial indicators and investment trends provide insight into the dynamics of the sector. In addition, the governance framework, regulatory reforms and transparency initiatives underline the government's commitment to improving the governance of state-owned enterprises. The results show a significant increase in revenue and operating performance and a significant improvement in the financial performance of SOEs. Corporate governance and company size are important factors in addressing information asymmetries, but the effectiveness of government regulation has been limited.

To move forward, we make recommendations to address these challenges and strengthen the governance and transparency of public companies. The recommendations emphasize strengthening corporate governance frameworks, improving disclosure practices, engaging stakeholders, investing in corporate culture, aligning incentives with transparency goals, enhancing regulatory oversight, encouraging collaboration, and adopting technology and innovation. Implementing these recommendations is key to building trust, strengthening accountability and promoting sustainable growth and development in the Moroccan public enterprise sector. By adopting best practices and leveraging technological advances, public enterprises can effectively address challenges and contribute to the country's economic prosperity.

Going forward, it is important that Moroccan SOEs continue to prioritize governance reforms, improve transparency and promote stakeholder engagement. Strengthening regulatory oversight, fostering accountability and embracing innovation are also important to navigate the changing SOE governance environment. Overall, Moroccan SOEs can play an

important role in addressing these challenges and seizing the opportunities for improvement.

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