IS PRIVATIZATION A PANACEA? PRE AND POST PRIVATIZATION ANALYSIS OF FINANCIAL PERFORMANCE

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Abstract. *The aim of this study is to examine the impact of privatization of state-owned enterprise on financial performance, employees' satisfaction and customer satisfaction. Pakistan Telecommunication Company Limited (PTCL) was taken as the organization for analysis. Five years pre and post-privatization financial figures were analyzed to compare the return on asset, return on equity, earning per share, net profit margin, and dividend payout. To know customer satisfaction level, the questionnaire was personally administered and 102 questionnaires complete from all respects were included for analysis. A semi-structured interview was conducted with 25 employees to determine the satisfaction level of employees. Findings of the study confirmed adverse financial performance after privatization followed by the high level of employees' dissatisfaction. However, customer satisfaction level was high after privatization.*

Keywords: Islamic bank, conventional bank, financial analysis, banking sector, Pakistan, financial performance.

Introduction

Privatization being the process of transferring ownership of state-owned enterprises to private hands so as to enhance efficiency and effectiveness also called denationalization (Savas, 2005). As it is a global phenomenon, communist countries have been transforming their stated owned economies to a privately owned system in early 1990's (Blanchard, Dornbusch, Krugman & Summers, 1991). There are agreements amid academicians and researchers that transfer of ownership from state to private hands has implications for the workforce and their work environment. The common motive of privatization is to generate revenue and privatizing organizations are realistic sources of generating revenue (Lipton & Sachs, 1990). Anyhow, there are disagreements of views on the extent and nature of the effect of privatization. Cook and Kirkpatrick (1998) find that the effect of transferring state-owned assets to private hands on employment will commensurate with the comparative importance of state-owned enterprise sector in the national economy as well as its contribution to formal employment. Gupta, et al (1999) find an indirect association between competition and retrenchment.

Maximo (2002) finds out that privately owned organizations are more profitable and efficient as compared to state-owned organizations. He also found that there was a negative relationship between unemployment and privatization. Fischer et.al. (2002) concluded that privatization of pensions system, the health insurance system and of education through a voucher system yielded big benefits. Privatization of banking sector has also come up with favorable consequences like better profitability and having strong economic conditions (Narjess, 2005). The empirical study of the aftermath of privatization of airlines in ten countries showed generally favorable evidence on performance, more specifically sales increased quickly and capital expenditures, net-income, dividend, and total assets increased after privatization (Clarke, 2005: Mahdy, 1999). The pre & post-privatization comparison of operating and financial performance of thirty-one domestic telecommunication organizations in twenty-five different countries showed significant improvement in their performance (Souza & Megginison, 2002).

However, a study of 178 Czech Republic firms revealed that efficiency and profitability decreased immediately following privatization (Harper, 2001). On the basis of their experiences of fifteen to twenty years Jan et al. (2009) evaluated the consequences of privatization in the post-communist countries economies which were in the transition phase. They differentiate, individually, the impact of privatization on profitability, revenues, efficiency, and indicators alike and differentiate between researches on the basis of their econometric methodology in order to emphasis on more authentic findings. In Central Europe, the consequences of privatization have also been found, but quantitatively smaller than that of other countries. The literature available on China indicates varied findings with the impact of private ownership on overall output as generally positive but less often negative or insignificant.

Research Framework

The impact of privatization of PTCL on its performance has been examined through three dimensions. Firstly, financial indicators including Return on Asset, Earnings Per Share, Return on Equity, Net profit Margin, and Dividend Payout Ratio have been used to assess its implications on financial outputs. Secondly, customer satisfaction level has examined along the quality of service, price, networking and complaint handling. Thirdly, employee satisfaction was measured through workload, salary/bonuses, retirement benefit, job security and job rotation. Thus three research questions have been framed:

1. Is post-privatization financial performance of PTCL better as compared to its pre-privatization era?
2. Whether customers of PTCL are relatively more satisfied with the present performance as compared to its performance before privatization.
3. Whether employees are more satisfied with their present work life as compared to their work life prior to privatization.

Methodology

To evaluate financial performance, six years pre and six years post-privatization financial statements (annual reports) were retrieved and compared. Since privatization took place in 2006, this data ranges from the period 2001 to 2012. A sample of 160 customers was selected through simple random sampling. Questionnaires were personally administered to them to measure their level of satisfaction. Twenty-five employees, having more than ten years experiences of working with PTCL in both pre and post-privatization era, were selected for an interview. Semi-structured, in-depth, interviews were conducted to understand the impact of privatization on employees work experience.

Analysis

For testing the first hypothesis 5 years pre and post-privatized data of PTCL have been used.

Table 1 *Pre Privatization of PTCL*

Indicators	2001	2002	2003	2004	2005	2006	Average
Return on Asset	12.97	17.1	20.71	23.98	23.79	21.5	20.01
Return on Equity	26.35	23.33	24.75	28.2	25.45	20.22	24.72
Earnings Per Share	3.6	3.88	4.53	5.72	5.22	4.07	4.50
Net Profit Margin	29.26	29.83	34.35	35.73	30.46	26.16	30.97
Dividend Payout	67.42	70.79	70.34	87.42	38.34	122.73	76.13

Table 2 *Post-Privatization of PTCL*

Indicators	2007	2008	2009	2010	2011	2012	Average
Return on Assets	16.86	-1.46	8.24	8.81	7.51	5	7.49
Return on Equity	14.45	-2.71	9.28	9.33	7.5	7.08	7.48
Earnings per Share	3.07	-0.55	1.79	1.82	1.46	1.41	1.50
Net Profit Margin	22.01	-4.26	15.45	16.26	13.44	12.01	12.49
Dividend payout	65.22	0	83.6	96.03	120.15	0	60.33

Table 3 *Comparison of Averages*

Indicators	Post privatization	Pre Privatization	Difference
Return on Assets	7.493	20.008	(12.515)
Return on Equity	7.488	24.716	(17.228)
Earnings per share	1.500	4.503	(3.003)
Net Profit Margin	12.485	30.965	(18.480)
Dividend Payout	60.83	76.178	(15.348)

After privatization, the financial indicators have been adverse over the period of time. The average figures of pre and post-privatization figures indicate 60 percent decline in Return on Assets, 70% in Return on Equity, 75% in Earning per share, 58% in Net Profit margin and 20% in Dividend Payout. In 2005, before privatization, PTCL generated revenue of Rs. 84 billion with Rs. 27 billion as net profit. After privatization, the profit receded to 11 billion which is 21% negative growth rate. The post-privatization financial growth rate remained 2% as compared to 6 % of its competitors. The value of shares in 2005 was 358 billion which reduced to 88 billion in 2009. All the financial indicators portray a dismal picture after privatization. Thus the case of PTCL does not support the proposition and the literature that privatization brings financial efficiency in organizations.

Employees of PTCL were unhappy with the privatization and they tried their best to stop the process. They went on strike time and again to protect their jobs and career growth. After privatization, PTCL management started rightsizing through downsizing as per employees expectations and 32000 employees were separated. The data gathered for this study also shows the high level of job dissatisfaction. According to the survey, the work environment has not been that conducive for employees. Jobs are no more secure, bonuses are not given, increments are not usually granted and promotions are non-existent.

New appointments are contractual and low paid. Thus it is concluded that PTCL is no more conducive place for employees after privatization.

Customer satisfaction was found surprisingly high and 81 percent expressed their satisfaction regarding the services provided to them after privatization. Major reasons of satisfaction were the introduction of additional services like DSL, 3G and Evo services, since PTCL was providing landline telephone service only before privatization. It made its complaint handling systems more responsive and effective. 53 % of respondents were satisfied with prices and 65 percent viewed that PTCL packages were more economical and more valuable as compared to its rivals. Thus it is concluded that privatization of PTCL has come up with high-level customer satisfaction than ever

Conclusion

Literature suggests that the state-owned firms having less desirable performance, on the decline, suffering from loss or having no future prospects are generally transferred to private hands and such practice have proved fruitful. The aim of privatization is to revive sick firms and to save state exchequer from loss through private intervention. However, the case in hand was somewhat unique, that a highly profit earning firm was privatized. Handing over the entire management powers and control to private enterprise on the basis of 26 percent shares is somehow irrational. The deal was not transparent, assets were undervalued, employees were made jobless and many more objectionable events happened throughout the privatization process.

The consequences of this privatization were destructive to great extent. Financial performance went down and became worst year by year. Employees were dissatisfied and most experienced employees left the organization leaving PTCL deprived of their expertise. Existing employees were completely lacking organizational citizenship behavior, commitment, and loyalty which are major determinants of organizational success. However, the introduction of Internet services and effective complaint handling has enhanced customer satisfaction. Basically, it is due to deregulation and entry of competitors in the market who compelled PTCL towards diversification and reduction in prices. Nevertheless, the future of PTCL is not seemed that prosperous after privatization.

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