The Performance of Privatized Companies after Transfer

Saeed Nouri Hoseinabadi[1]*, Alaleh Yazdani[2]

[1]*Department of Accounting, Zavareh Branch, Islamic Azad University, Zavareh, Iran
[2]Department of Accounting, Zavareh Branch, Islamic Azad University, Zavareh, Iran
*snouri@khuisf.ac.ir

Abstract: In this paper it is tried to present results from studies done about privatization of companies in some countries and its comparison with some results of carried out investigations in Iran and examines the performance of privatization in companies with state ownership. To do this, results of the study will be provided and then compared in terms of changes in profitability, operational efficiency, output, dividend and financial leverage. Then causes of the changes will be stated. The results show that privatization will aid the improvement of companies' performances in many countries, industries and in competitive media. Privatization causes increase in profitability, efficiency, return, dividend and decrease in financial leverage.
[Saeed Nouri Hoseinabadi, Alaleh Yazdani. **The Performance of Privatized Companies after Transfer.** *J Am Sci* 2013;9(1):338-341]. (ISSN: 1545-1003). http://www.jofamericanscience.org. 50

Keywords: privatization, profitability, operational efficiency, financial leverage, return

Introduction

During 1950's and 1960's state economy was preferred to non-state economy, especially in underdeveloped countries. Gradually and by spreading the demands of state activities, some problems like strong bureaucracy, weakness in management system and … caused non-efficiency of state activities during 1970's and 1980's. These problems caused the trend to self-organized mechanism of market and privatization to be supported by states. Privatization could make many benefits and advantages for industries both in developing and developed countries. States have learnt how to do privatization plans more efficiently because of reporting academic findings and professional data during the last decades. Results of the research show that companies with private ownership have better efficiency rather than those with public or state ownership and where competition exists in some parts, private sector is able to provide the same services with better efficiency and results toward state sector. Most governments accept privatization plans to increase their income and improve their financial and executive performance of state companies by placing them in contact to market forces, especially governments expect privatization to increase their profitability, operational efficiency, ability of the company for investment and improve their return. In this paper it is tried to study the accuracy of performance of privatization by providing results of studies.

Studying some researches relating to privatization performance

Movement from public or state ownership toward private one has many advantages for companies. This issue is clearly shown in Vining and Boardman (1992) (Amount control and market share), Dewnter and Malatesta (2001) (control of business cycle) and Tian's (2000) researches. Also, La Porta et al (2000) have studied state banks ownership in 92 countries and found that state ownership causes delay in development of financial systems and limits economic growth rate and this issue was often related to the effect of state ownership on efficiency. Megginson, Nash and Van Randenborgh (1994) showed that after privatization, operational efficiency, profitability, investment expenses and dividend increased and financial leverage significantly decreased. There was no evidence to decrease work force but important changes occurred in companies' leaders.

Miri (1994) noted one of the aims of privatization in Iran to increase efficiency. In fact, the main question of this study is whether privatization will cause increase in efficiency or not. To do this, the hypothesis established on two efficiencies: 1- economic efficiency, which is studied through profitability ratios, and 2- technical efficiency which is studied through studying companies' production. Relating tables for financial ratios in this study show that profitability ratios and companies' production have had a significant increase after privatization than before it. Rafiei (1995), in a research to study this issue that transferred companies in Iran have had better efficiency after transfer, showed some indices have been extracted and studied efficiency of transferred companies for 2 or 3 years before and after privatization regarding to the defined indices. Results studied showed that efficiency of companies transferred to private sector was more desirable than before. Thus, privatization, as a policy to improve the efficiency of transferred companies, was confirmed.

Petrazzini and Clark (1996) studied active companies in field of telecommunication and found that privatization cause improvement of level and rate of growth of partners but doesn't have significant effect on quality of services. Also, Boubakri and Cossett (1998) show that after privatization, output, operational performance, profitability, investment expenses, dividend and work force will increase and financial leverage will decrease, significantly. In addition, Claessens and Djankor (1999) found that hopefulness of new managers (especially with private ownership) and concentrated ownership (especially foreign strategic owners and investment funds don't use bank supports) will cause significant improvement in margin of profit and utilization of work force. Frydman et al (1999) believed that privatization, if the buyer is internal, will cause 18 percent increase in rate of growth and if the buyer is foreign will cause 12 percent increase in rate of growth. Also, if the buyer is foreign, it will cause 9 percent increase in utilization growth. In this term, Djankov (1999) studied privatization in 6 independent states and observed that foreign ownership will cause changes in high levels of management and ownership by employees of the company will cause efficiency of staff and changes in low levels of management. Dsouza and Megginson (1999) compared financial and executive performance before and after privatization in 85 privatized companies and found that privatization will cause significantly increase in output, operational efficiency, profitability band dividend and also decrease significantly in leverage. Mohammadi (1999) evaluated results of privatization policy in Iran in Electricity Distribution Company using some documents and indices. The obtained results showed that in this company deep changes have occurred in comparison to the past. But, regarding to the lack of providing required substrates, organizational effectiveness was not described in terms of lessening the size of organization and following that, decrease in costs, serious responsibility toward customers, competition creation, complete separation from state sector, development of share ownership, profitability and omitting the exclusiveness. Wallsten (2000) studied 30 companies from Africa and South America using Panel data, were privatized during 1984-1997 and found that privatization can be useful only when used with independent and efficient rules.

Almasi (2002) has studied effects of privatization policies of Iran government in terms of finance effectiveness evaluation of these policies has been carried out using three criteria, each share income, assets output and special value output status of the three criteria has been studied 5 years before and after privatization for the privatized companies. The privatized companies evaluated in frame of 5 different industries and surveyed totally. Results of this study show that financial efficiency of the companies had no meaningful changes after privatization. Thus, execution of privatization policy hadn't been able to achieve the aims, means efficiency improvement of the companies. Gupta (2005) studied Indian companies during 1990-2000 (using companies of which some ownership parts had been privatized during 1991-1999 and companies of which no part had been privatized) and resulted that privatization had positive effect on profitability, efficiency and investment. Boubakri and et al (2005) showed that in countries with weak support by investors had more importance. In a similar comparison, Boubakri et al showed that privatization caused improvement in profitability, efficiency and output. They also obtained same data for a sample containing 230 companies during 1980-1999.

Ranjbar Dargah (2005) in a research tried to evaluate effects of privatization on performance of transferred companies to the private and state sectors to study the improvement of companies' performance after transfer comparing before it and effect of different ownerships (public and private) after transfer on their performance. So that, it will be identified what kind of private or public ownership has performed better after transfer. Using financial information related to 18 companies (8 companies transferred to the private sector and 10 companies transferred to the public sector) which transferred during 1991-2000, performance of three years before and after transfer of the two categories were studied. Results from hypo tests show that companies' performances improved after transferring. In all mentioned studies above, researches have focused only on a special industry or field. Thus, in order to detailed study of influence of privatization on companies' performances, Mathur and Banchuen researches (2007), which studied influence of privatization on financial and executive performances of 103 privatized companies around the world during 1993-2003, will be provided. In this study the final sample includes 103 companies from 36 countries in which 65 companies are from developed countries and 38 ones from developing countries. Performance criteria tested include: profitability, operational efficiency, output, financial leverage and dividend. In the following, results obtained from the above research compared with other ones.

Comparison of the research results

In Mathur and Banchuen study (2007), profitability was measured by three ratios: Return on sale (ROS), return on assets (ROA) and return on equity (ROE). Results show that after privatization, profitability increased but this increase was not important. Average ROS increased up to 5.97%, i.e. from 13.37% to 19.33% and profit margins of 45% of sample companies improved after privatization.

Although this important lack of change in profitability after privatization in the studied sample in Mathur and Banchune's research (2007) is similar to the results obtained from Almasi (2002) and Mohammadi researches (1999), it is somehow different with the results from other researches. For instance, La Porta et al (1999), Boubakri and Cosset (1999), Classens and Djankor (1999), Tian (2000), Gupta (2005), Rafiei (1995) and Miri (1994) studies show usefulness of privatization to improve profitability of companies with state ownership. According to the study of Boike and et al (1996), a possible explanation to increase profitability is that privatization cause's shift of the company control and cash flow to the managers who like more profitability and efficiency rather than politicians. Sales efficiency (SALEFF) and also Net income efficiency (NIEFF) for each employee used as the efficiency criteria. Results of Mathur and Panchu research as well as other ones such as Bpardman and Vinning (1992), Ramamutti (1996), Pettrazzini and et al (1999), Tian (2000), Rafie (1995), Miri (1994) and Ranjbar `s (2005) showed improvement in efficiency which describes this viewpoint that when companies with state ownership enter competition markets and their state subsides stopped, they utilized their human, technical and local recourses more efficiently. In Mathur and Bancheun research (2007) output rate was studied using actual sales in which the obtained results show significant increase in actual sales. Potential reasons for increase in output after privatization in this study and other ones are: better bonus, more flexible financial opportunities, more and boarder competitions for innovation and creativity. Also it seems that increase in output can be resulted from increase in efficiency of private companies. Mathur and Bncheun used debt to assets ratio (total debt /total assets) and long-term debt to quality ratio (long-term debt/equity) in order to measure changes in financial leverage. As it was predicted, a meaningful decrease registered for both ratios. These ratios decreased almost in 69% of companies after privatization. Broudly et al (1984) and Dewenter and Malatesta (2001) studies showed decrease in debt levels. Companies with state ownership have high debt levels as they can't sell stocks to the private sector investors and thus the only way to support their financial needs is injection of investment by the government and retained earnings. Therefore and most probably, state companies will decrease their debt levels after privatization as separation of government guarantee from the debts increase their Borrowing costs and they prefer to finance it through offering of shares.

In Mathur and Bancheot research, dividends divided by sale and total dividends divided by net profit were used to study changes in dividends. Results of the study for dividend after privatization, not only in this study but also in most studies, are similar and show that privatization cause increase in dividend. According to Megginsaon study dividend increases after privatization, as private investors want more dividend and this dividend is a response to the broad ownership and most privatization plans resulted in it. According to what mentioned about performance of privatization, the following cases can be noted as effective factors for better efficiency and also barriers in privatization:

Effective reasons for better efficiency of privatized companies

1- Shift of company control and cash flow to the managers who interest in profitability and efficiency more than politicians.
2- More efficient use of human, technical and national resources.
3- More flexible financial opportunities.
4- More and broader competition for creativity and innovation.
5- Increase in efficiency
6- Omitting governmental guarantees and financial support through public offering stocks.
7- Significant decrease of costs.
8- More dividends because of investors' demands in private sector to receive dividend
9- Managent and organization aims.
10- More and strong supervision by beneficiaries.

Some barriers in the path of privatization

Although studies done in this field in some cases show positive results, in some instances barriers have been noted that by removing them, better results can be obtained, which include as follow:

1- 1-Lack of proper substrate to achieve aims of this plan
2- Lack of required supporting rules.
3- Lack of transparency of ownership of company shares
4- Lack of economic resources as the main background
5- Non resolving the subject of excess human force.

Conclusion

In this paper results of some studies done in Iran and other countries, related to financial and initial privatization through public offering shares, have been reported. According to the survey of these researches it can be noted that privatization will cause increase in profitability and also significant increase in three criteria of efficiency. Most carried out studies showed significant increase in output. Better bonus, more competition and creative entrepreneurship are possible reasons for this increase. Also, these studies show a significant decrease in financial leverage. Availability to investment markets and omitting of governmental guarantees in case of debts is the reason to decrease leverage ratios. These researches show important increase in dividends which is for the demands of investors to receive more dividends. Although, carried out studies show positive results, in most cases there have been some problems and barriers such as lack of proper substrates to achieve the aims of this plan, lack of required field of share ownership, lack of economic resources as the main background, non resolving the subject of excess human resources, and it seems we can get better results by removing these barriers.

Corresponding author:
Saeed Nouri Hoseinabadi
Department of Accounting, Zavareh Branch, Islamic Azad University, Zavareh, Iran
Email: snouri@khuisf.ac.ir

Reference

1. Almasi, M. 2002. The investigation on effect of privization on financial performance of companies in Tehran stock. Accounting-Master Thesis in Shiraz University.
2. Boubakri, N., Cosset, J.C., 1998. The financial and operating performance of newly privatized firms: evidence fromdeveloping countries. Journal of Finance 53, 1081–1110.
3. Boubakri, N., Cosset, J.C., 1999. Does privatization meet the expectations? Evidence from African countries.WorkingPaper.Ecole des HEC, Montreal, Canada.
4. Boubakri, N., Cosset, J.C., Guedhami, O., 2005a. Post-privatization corporate governance: the role of ownership structureand investor protection. Journal of Financial Economics 76, 369–399.
5. Boubakri, N., Cosset, J.C., Guedhami, O., 2005b. Liberalization, corporate governance and the performance of privatizedfirms in developing countries. Journal of Corporate Finance 11, 767–790.
6. Bradley, M., Jarrel, G., Kim, E.H., 1984. On the existence of an optimal capital structure: theory and evidence. Journal ofFinance 39, 857–878.
7. Claessens, S., Djankov, S., 1999a. Enterprise performance and management turnover in the Czech Republic. EuropeanEconomic Review 43, 1115–1124.
8. Dewenter, K., Malatesta, P.H., 2001. State-owned and privately-owned firms: an empirical analysis of profitability,leverage, and labour intensity. American Economic Review 91, 320–334.
9. Djankov, S., 1999a. Ownership structure and enterprise restructuring in six newly independent states. ComparativeEconomic Studies 41, 75–95.
10. D'Souza, J., Megginson, W.L., 1999. The financial and operating performance of newly privatized firms in the 1990s.Journal of Finance 54, 1397–1438.
11. Frydman, R., Gray, C.W., Hessel, M., Rapaczynski, A., 1999. When does privatization work? The impact of privateownership on corporate performance in transition economies. Quarterly Journal of Economics 114, 1153–1191.
12. Gupta, N., 2005. Partial privatization and firm performance. Journal of Finance, 60, 987–1015.
13. La Porta, R., Lopez-de-Silanes, F., Shleifer, A., Vishny, R., 1999. The quality of government. Journal of Law, Economics,and Organization 15, 222–279.
14. La Porta, R., Lopez-de-Silanes, F., Shleifer, A., Vishny, R., 2000. Investor protection and corporate governance. Journal ofFinancial Economics 58, 3–27.
15. Mathur, W. Banchuenvijit ,2007, The effects of privatization on the performance of newly privatized firms in emerging markets, Emerging Markets Review 8134–146
16. Megginson,W.L., Nash, R.C., Van Randenborgh, M., 1994. The financial and operating performance of newly privatizedfirms: an international empirical analysis. Journal of Finance 49, 403–452.
17. Miri, H., 1994. Impact of privatization on the performance of private manufacturing companies in Iran, Accounting-Master Thesis in Tabiat Modares University.
18. Mohmadi, A., 1999. The evaluation of the results of privatization policy in Iran in Electricity Distribution Company, Accounting-Master Thesis in Institute of Management Education
19. Petrazzini, B.A., Clark, T.H., 1996. Costs and benefits of telecommunications liberalization in developing countries.Working Paper. Hong Kong University Science Technology.
20. Rafiei, M. 1999. Comparison of the performance of privatized firms before and after transfer to the private sector in the process of privatization in Iran. Accounting-Master Thesis in Tabiat Modares University.
21. Ramamurti, R., 1996. The new frontier of privatization. In: Ramamurti, Ravi (Ed.), Privatizing Monopolies: Lessonsfrom the Telecommunications and Transport Sectors in Latin America. Johns Hopkins University Press, Baltimore,pp. 1–45
22. Ranjbar Dargahi, F., 2005. The effect of ownership on firm performance (experience of privatization in Iran), Accounting-Master Thesis in Al-zahra University.
23. Tian, G.L., 2000. State shareholding and corporate performance: a study of a unique Chinese data set. Working Paper.London Business School.
24. Vining, A.R., Boardman, A.E., 1992. Ownership versus competition: efficiency in public enterprise. Public Choice 73,205–239.
25. Wallsten, S.J., 2000. An econometric analysis of telecommunications competition, privatization, and regulation in Africaand Latin America. Journal of Industrial Ecomomics 49, 1–19.

12/25/2012