

**"The Impact of Privatization on Financial
Performance on State Owned Enterprises (SOEs) in
Pakistan"**



By:

Muhammad AKif Sarwar

01-120111-032

Supervisor:

Qazi A.Subhan

**A research project submitted in partial fulfillment
of the requirement for the degree of MBA**

**Department of Management Sciences
Bahria University Islamabad Campus**

**Bahria University Islamabad
2014**

ABSTRACT

There are many studies for developed and developing countries but none of these studies has extensively covered the privatization program from structural and contextual issue of accounting standpoint in Pakistan. The core part of this study is to test the hypothesis that privatization in Pakistan has increased the profitability, operating performance, capital investment spending, higher dividend payments and output of the firms but lower leverage ratios and employment of firms after divestiture.

This dissertation aims to examine and evaluate the financial and operating performance of only those firms, which were privatized during years discussed in this study. The closed down units have also been discussed for their negative impact on economy.

The sample consists of 33 companies from 8 sectors. In overall analysis we documented significant increases in financial, automobile, cement, energy, fertilizer, engineering sectors' post privatization performance but ghee and chemical sectors did not perform well in almost all proxies.

In sector-wise analysis the results are almost similar in financial, automobile and cement sectors. Empirical evidences show that profitability, efficiency, investment, employment and dividend increases after privatization. While output and employment decrease in financial, increase in automobile and cement sector.

Acknowledgments

First and foremost, I thank Almighty ALLAH for letting me to live and learn in my life. I am forever grateful to ALLAH for His unwavering blessings. I am very fortunate and grateful to my supervisor QAZI A.SUBHAN for providing readership and ideas; paramount to the realization of this thesis. Thank you for your support and helpful suggestions, I will be forever thankful to you.

Not least of all, I owe so much to my whole family for their undying support, their unwavering belief that I can achieve so much.

DEDICATION

With the countless blessings of Almighty Allah, I dedicate this dissertation to my family and friends. A special feeling of gratitude to my loving parents, whose words of support and push for tenacity ring in my ears. Furthermore I would like to name my friends HUMAIRA KHANUM, BASIT ALI, BILAL RAZZAQ, ATIF BASHIR who have supported me throughout the degree, and will always appreciate for all they have done to me, specially my supervisor QAZI A.SUBHAN for the many hours of proofreading and guiding me.

Special thanks to my best friends HUMAIRA KHANUM and BASIT ALI for being there to help and guide me throughout MBA session. Both of you have been my best cheerleaders.

Abstract.....	I
Acknowledgement.....	II
Dedication.....	III
List of Abbreviations.....	VI

TABLE OF CONTENTS

1. Introduction

1.1. Background.....	1
1.2. Discussion of the Problem	2
1.3. Objectives of the Study	2
1.4. Historical Perspectives of Privatization: International Scenario	3
1.5. Historical Perspectives: National History	5
1.6. Scope of the study	9
1.7. Significance of the study	9

2. Literature Review

2.1. What is privatization?	11
2.2. Origination of Privatization	12
2.3. Why privatization?	13
2.4. Theoretical justification	16
2.5. Consequences and Cost of Privatization	19

3. Research Methodology

3.1. Data collection	25
3.2. Sample	27
3.3. Instruments and measures	28

4. Theoretical framework and hypotheses

4.1. Theoretical framework	31
4.2. Hypotheses	33

5. Empirical Results

5.1. Profitability	37
5.2. Operating Efficiency	43
5.3. Capital Expenditures	46
5.4. Changes in Output	46
5.5. Changes in Employment.....	47
5.6. Changes in Leverages	48
5.7. Changes in dividend payment	48
5.8. Regression Analysis	50

6. Conclusion & Recommendations

6.1. Conclusion	53
6.2. Recommendation.....	54

7. References

57-59

8. Annexure.....

60-70

List of Abbreviations

SoEs	State owned enterprises
SIPs	Share issue privatizations
GDP	gross domestic product
HDI	Human Development Index
NCBs	Nationalized Commercial Banks
WAPDA	Water and Power Development Authority
PTCL	Pakistan Telecommunication Limited
KESC	Karachi Electric Supply Corporations
IPO	Initial Public Offering
OGCL	Oil and Gas Development Company Limited
PBP	Privatization Board of Pakistan
ECC	Economic Co-ordination Committee
EOI	Expressions of Interest
PC	Privatization Commission
GOP	Government of Pakistan
SNGPL	Sui Northern Gas Pipeline Ltd.
PIA	Pakistan International Airlines
BEL	Bankers Equity Limited
MoP	Ministry of Production
MoF	Ministry of Finance
EAC	Expert Advisory Cell
GC	Ghee Corporation
SECP	Securities and Exchange Commission of Pakistan
KSE	Karachi Stock Exchange
RoA	Return on Assets
RoS	Return on Sales
RoE	Return on Equity
SALEFF	Sales Efficiency
INEFF	Income Efficiency
EBT	Earning Before Taxes

CESA	Capital Expenditures Divided by Sales
CETA	Capital Expenditures Divided by Total Assets
CPI	Consumer Price Index
EMPL	Employment
TDTA	Total Debt to Total Assets
DIVSAL	Divided by Sales