

Pre and Post Privatization Performance of Hazara Phosphate Fertilizers Limited

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1.1 Introduction

An industry or business may initiate its identity or operation in one sector (public or private) and may change to the other later. Privatization is an economic activity or process that results in the transfer of ownership of a business entity or public organization from public to the private sector through sales of government assets or allowing private sector to enter into the given business. The opposite of privatization where ownership of business entity moves from private to public, is known as nationalization or municipalization, depending on the level of government involved. Privatization, the transfer of State Owned enterprises (SOEs) to private shareholders resulted in significant structural changes in the world over the past few decades. Privatization is instrumental processes that reduce state participation in many countries. Privatization has been undertaken in different countries and industries by using different approaches. Developing countries emphasize on privatization of competitive businesses rather than their strategic sectors like telecommunications and banks (Narjee, 2005). Privatization in developing countries has important consequences for the poor than among middle-income countries and developed countries. For example, in Europe and America; employees are trained and prepared for redundancy, while in African and Asian countries, especially in Pakistan, after the privatization of the public institutions employees are at the mercy to the new owners. So, in the light of this fact this research was an attempt to investigate the causes that led to the privatization of Hazara Phosphate Fertilizer Limited (HPFL) and how this has impacted the company's performance in terms of efficiency, productivity and safety of employees.

Privatization, in a general term, describes policies that promote competition in the given industry and emphasize the role of market forces to play with their invisible hand. Privatization helped in overhauling organization performance in public-owned enterprises once known for their mismanagement, over-staffing and underinvestment. Proponents of privatization maintain that it fosters competition in the private sector thereby giving birth to efficient practices and productivity, producing better service and

products with lower prices and optimum resource utilization. However, some researchers amongst the critics of privatization argue that privatization in health care, civic utilities, education and law enforcement would be detrimental to social order and equity therefore, stress to keep these in the public sector to enable greater control and ensure more equitable access.

2. Literature Review

Privatization shows positive effects in the investment behavior and overall high output ratio (Grosfeld & Nivet, 1997). The same result was repeated in which the researcher concluded the results that overall revenue improved dramatically in different countries like Hungary, Czech Republic, and the Poland but change in reduction of cost was not found in the result (Rydman, Rapaczynski & Turkewitz, 1997; Frydman, Murphy, & Rapaczynski, 1998) a study was conducted on 79 fresh and old privatize firms in about 21 countries as developing in status like Malaysia, India, Tunisia and Bangladesh during the era of 1980 and 1990 and result was concluded that there is strong and significant relationship between the privatization and the revenue, sales ratio and profitability as well (Boubakri & Cosset, 1998) Al-Sumadi (1998) suggest that the public sector of Jordan is very weak to manage the organization so privatization is compulsory to them and sure that government is also have intention to privatize the corporation.

D'Souza and Megginson (1999) conduct a comparative research study post and pre in 21 different industries with 85 of companies and in about 28 of countries and they concluded that there is a strong and significant impact of privatization on the dividend, operation efficiency as well as profitability of firms but a sufficient amount of decrease been noted in the ratios of leverage. Ernst, Edward, Gregory, and Holt's (1999) concluded the negative effect of privatization on the firm's performance in other countries like morocco. Perevalov, Gimadi and Dobrodey (2000) also give the evidence through their study that there is significant impact of privatization on every size of corporation in Russia. The impact was found in the profitability. In the research study of 69 corporations in Egypt. Omran (2001) concludes a strong significant relationship in between the corporation structure of ownership and the efficiency.

Author also explains that post test good result in the study then the pre test of corporation in the privatization. Further it was noted that there was increase in profitability due to price increase not due to efficiency. And the same was noted in Pakistan in Pak Arab Fertilizers in which they earn profit but due to price increase. Hussain (2004) conduct a research study in which he found that whenever a bank privatize to the employee of the organization then no improvement found but when it privatize to the private investor it work. He actually compare the Muslim Commercial Bank and Allied Bank and noted that MCB was more profitable and efficient then the MCB. Khalid (2006) found significant relationship between the liberalization and privatization and organization performance. Khan (2006) noticed that there is significant change in the profitability and ratios of liquidity after privatize the firm.

3. Research Methodology

This study is an empirical research using the case study method. Empiricism, in its broadest sense, is the habit of explaining universalities from particulars of experience (Partington, 2002). A case study research is a technique of organizing data and looking at

the object to be studied as a whole. According to Paton (1990), “a case study seeks to describe a unit in detail, in context and holistically”. The sources of information are mainly from secondary data gathered from existing literatures, text books, journals, and other documentary evidences, such as magazines and official publications of the company under review, and personal interactions between the researcher and some staff of the company. This HPFL company was selected for this study because data for both pre and post-privatization periods was available. Primary data was collected for Employee’s satisfaction.

This type of research is after the event. In this study, the aim is to examine the relationships between variables and data on the natural environment in normal way or past events that have occurred without the direct involvement of researchers, to collect and analyze. This study is based on published financial data of HPFL for the period 2004-2013. Since the main objective of the research was to test whether there are any performance improvements after the privatization in HPFL or otherwise. For this, the research examined the cash flow, profitability, operating efficiency, output, and capital investment variables. Specifically, to test the hypotheses that privatization has any positive or negative relationship with financial performance of HPFL the research attempted to check that:

- a) Is there any increase in the HPFL’s cash flow?
- b) What are the pattern of HPFL current ratio and quick ratios over the years?
- c) What are the activity ratios, inventory turnover and stock in day’s ratios of HPFL in given period of investigation?
- d) What have been the patterns of profitability, judging through Gross profit margin, net profit margin?
- e) What’s the returns on the assets over the years under investigation so as to know that returns on post privatization is more than prior to that or otherwise?
- f) What have been the ratios of returns on equity?
- g) Is there any increase in HPFL’s cash flow margin?
- h) Is there any increase in HPFL’s asset productivity?
- i) Is there any increase in the HPFL’s operational efficiency?
- j) Is there any increase in the HPFL’s capital spending?
- k) Is there any decrease in HPFL’s employment cost?

Data analyses mainly depended upon the ration analyses. Ratio analysis was used to assess the financial performance during the pre and post-privatization periods.

4. Financial Analysis**Table 1: Liquidity Ratio of Hazara Phosphate Fertilizer Pvt. Ltd**

Serial No's	Liquidity Ratios	Pre Privatization Mean	Post Privatization Mean	Differ. Mean	Stan. Devi	t _{Cal}	D.F	P-Value	Findings
01	Current Ratio	2.20	2.51	(0.31)	1.44	(0.48)	4	0.66	Insignificant
02	Quick Ratio	1.09	0.89	0.19	1.19	0.36	4	0.74	Insignificant

Within the table 1 liquidity ratios table shows that current ratio of HPFL increases as of 2.20 during pre phase of privatization toward 2.51 times during post phase of privatization. On the other hand quick ratio means decrease from 1.09 during pre period of privatization toward 0.89 times during post phase of privatization. All the P-values of both the ratios are larger than $\alpha =$ value that is (0.05) which is insignificant and the T value is also less than 1.96 in both the ratios and research finding shows that privatization does not positively affect Hazara Phosphate Fertilizer Pvt. Ltd.

Table 2: Profitability Ratio of Hazara Phosphate Fertilizer Pvt. Ltd:

Serial No's	Profitability Ratios	Pre Privatization Mean	Post Privatization Mean	Differ. Mean	S.D	t _{Cal}	D.F	P-Value	Findings
01	Net Profit Ratio	2.35	7.16	(4.81)	21.89	(0.49)	4	0.65	Insignificant
02	Operating Profit Ratio	(2.91)	6.62	(9.53)	12.74	(1.67)	4	0.17	Insignificant
03	Return On Equity	2.12	5.96	(3.84)	12.39	(0.69)	4	0.53	Insignificant
04	Return On Assets	1.16	5.73	(4.57)	8.40	(1.22)	4	0.29	Insignificant

In the Table 2 profitability ratio provide information to investor about the company profit its operating expenses etc. Profitability ratio table shows that net profit ratio increase from 2.35 during pre phase of privatization toward 7.16 times during post period of privatization. On the other hand operating profit ratio increase from (2.91) during pre period of privatization toward 6.62 times during post privatization period. Return on equity ratio increase from 2.12 during pre privatization phase toward 5.96 times during after privatization phase. Return on assets ratio increase from 1.16 during before privatization phase toward 5.73 times during after privatization phase.

All P values of the ratios are larger than $\alpha =$ value which is (0.05) which is insignificant and the T value is also less than 1.96 in all the ratios and research finding shows that privatization does not positively affect Hazara Phosphate Fertilizer Pvt. Ltd.

Table 3: Debt Ratios of Hazara Phosphate Fertilizer Pvt. Ltd

Serial Numbers	Debt Ratios	Pre Privatization Mean	Post Privatization Mean	Differ. Mean	S.D	t _{Cal}	D.F	P-Value	Findings
01	Debt to Assets	42.03	74.28	(32.25)	94.86	(0.76)	4	0.49	Insignificant
02	Equity To Assets	57.96	205.71	(147.75)	309.65	(1.07)	4	0.35	Insignificant
03	Debt To Equity	0.85	0.44	0.41	0.67	1.37	4	0.24	Insignificant

In the table 3 debt ratios table shows that debt to assets ratio increase from 42.03 in before phase of privatization toward 74.28 times during after phase of privatization. Equity to assets ratio increase as of 57.96 during before phase of privatization toward 205.71 times during after phase of privatization. And debt to equity ratio decrease as of 0.85 during before phase of privatization toward 0.44 times during after phase of privatization. All P values of all the ratios are larger than $\alpha =$ value which is (0.05) which is insignificant and the T value is also less than 1.96 in all the ratios and research finding shows that privatization does not positively affect Hazara Phosphate Fertilizer Pvt. Ltd.

Table 4: Activity Ratios of Hazara Phosphate Fertilizer Pvt. Ltd

Serial Number	Activity Ratios	Pre Privatization Mean	Post Privatization Mean	Diff. Mean	S.D	t _{cal}	D.F	P-Value	Findings
01	Assets Turnover Ratio	1.56	1.15	0.41	1.68	0.54	4	0.62	Insignificant
02	Current Assets Turnover Ratio	1.87	2.41	(0.53)	3.03	(0.39)	4	0.71	Insignificant

In the Table 4 activity ratio table shows that assets turnover ratio decrease from 1.56 during before privatization phase toward 1.15 times during after privatization phase. On the other hand current assets turnover ratio increases from 1.87 during before privatization phase toward 2.41 times during after privatization phase. All P values of both the ratios are larger than $\alpha =$ value which is (0.05) which is insignificant and the T value is also less than 1.96 in both the ratios and research finding shows that privatization does not positively affect Hazara Phosphate Fertilizer Pvt. Ltd.

Table 5: Sales

Period	Pre Privatization				
Years	2004	2005	2006	2007	2008
Sales	471,083,218	538,745,121	541,530,117	400,551,608	926,283,661
Period	Post Privatization				
Years	2009	2010	2011	2012	2013
Sales	1,773,665,966	1,355,877,821	1,485,311,583	1,717,047,813	1,717,047,813

5. Conclusion

The studies in this research lead the researcher to problems and a sequence of questions that need to be focused for successful non nationalization. Simple in statistical analysis of the Hazara phosphate fertilizer Pvt. Ltd. the privatization does not affect the financial performance of the organization because no ratios result is in the favor of privatization. After computing the results of 11 ratios none of them is significant all of

them are in significant. Finally, the researcher concludes that in the case of Hazara phosphate fertilizer Limited privatization has no positive role. Government must have to address all the issues related with the privatization. For non nationalization to be victorious in whichever country there is a set of circumstances that have to be met to make sure the highest possibility to create a viable private system.

Research shows that the following criteria are the minimum required to achieve this;

- 1) Partial privatization of government owned companies; we must make sure it is necessary. It only acts as a passive shareholder. Government, usually a political party or public credit allocations made by central planning decisions, it is necessary to prevent the continuation.
- 2) Privatization procedure must be crystal clear.
- 3) Privatization of the remaining state-owned companies, especially in large concentrations it is very important to the economy and culture of the bank's willingness to lend to state-owned enterprises need to eliminate.
- 4) Privatization need to develop a monitoring system that is independent of political influence enough. For evaluating the effectiveness administration in addition to monitoring.
- 5) Asset quality and profitability of the financial information system, to be developed that allow for transparency.

Today, it is very difficult for any modern business that makes the performance of dynamic in addition to rapidly changing environment. Because of the uncertainty, threats in addition to constraints in the public sector under pressure in addition to living in Pakistan and is trying to find a way to stay healthy way. After every industry adopted a policy of economic liberalization around the world has led to falling business barriers, without charge movement of capital, the globalization of markets, greater economic interdependence in addition to international attack imaginable, the business community all over the world, of late, become highly competitive and complex.

To redefine their position in the financial industry so that they are entering a difficult environment and has become the company should be aware of. Fresh forms in addition to methods will be determined toward successfully deal with new challenges, in particular, the growing demand for high quality services to customers. The autonomy of financial institutions, prudential rules and supervision of financial institutions cautious of privatization is more important. Politics should be a minimum target of inflation is inevitable. Monetary and fiscal policies must be consistent with the target price. The interest rate structure should be left to market forces.

Exchange rates are determined by the market forces. The rate of nominal take-home pay to the inflation rate and labor productivity is concerned. The regulatory framework should be exercised, will increase the release of effective monitoring, control and configuration needs.

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