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The effect of Privatization on Functional Performance and Investment on Capital Assets of Companies Listed on Tehran Stock Exchange

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ABSTRACT

Objective: In this research, the effect of privatization on functional performance and investment in assets of the privatized state companies listed in Tehran Stock Exchange (TSE) has been investigated in 1370_1385 AD. The main objective of the research is the investigation of the success in privatization plans executed by Iranian Government. The performance of the companies measured by indexes such as functional performance and investment in companies assets. After the test the normality of the data and regarding the results of these tests, comparison tests averages and Napa metric parametric test was used to test hypotheses. The study results indicates that there is a significant difference between functional performance of the companies before and after privatization since, the impact of privatization on investment in the company's assets was not significant.

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INTRODUCTION

Underdeveloped countries, especially after the mid-eighties, continued the steeply towards the privatization of state industries and companies.

The collapse of socialist ideology and empirical failure of the state of the economy or the economy on one hand and successful experience of some countries in the world, particularly South East Asia, makes this belief strengthened that to achieve sustainable economic growth, the only way is to join the free market economy and reduction of government intervention through the privatization of state enterprises, and the latter one does not exist. However, in order to examine the issue of whether the privatized companies achieve improvement of financial or operational performance or not, some tools are required. As mentioned in earlier studies, financial information of companies is one of these tools. By analyzing this information in the situation before and after privatization, the nature of the company can be understood during the transformation and measure the mentioned criteria. Since the information is historical and audited, the reliability of this analysis will be increased. The results of this study can be used for the purpose of getting feedback of privatization process. Regarding the impact of companies on people's lives and on issues of corporate governance there, addressing this issue is very important cases. Because the material and spiritual resources are at the disposal of companies and social responsibilities of companies whether state-owned or privately owned make every researcher's mind into challenge regarding the true nature of ownership.

So the aim of this study is to evaluate the financial performance of companies after privatization.

Theoretical foundation of research:

Suitable ground for changing the profit and the assets-related conflicts of profit, and also due to some inherent accounting limitations such as deficiencies in the estimation process and future prediction, ability to use multiple methods of accounting has caused real profit of single case reported economically vary in financial benefits.

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Researchers and professionals of accounting regarding the importance of profit as the major point in evaluating the performance and determining the value of company, needs to assess reported profit by economic units. To evaluate this profit, one concept called quality of asset has been used. In different articles in defining the quality of asset, two features have been mentioned for quality of asset. One of them is profitability in decision-making and another one is the relationship between these two concepts and economic benefits which has been expected by Mr. Hicks.) Hicks was an English economist and presented the general theory of economic benefit. It can be described as follows: Profit is defined as the maximum amount that a person can spend during a specific period of time in a way that at the end of period, the wealth is the wealth of the first period. In another word the quality of assets is defined as sincere expressing the reported profit from the one which Mr. Hicks expected. The honest expression means descriptive have been done and what has been claimed.

It means high quality of asset shows usefulness of profit information for consumers' decision making and is consistent with Mr. Hicks economic profit. Because people use information in different decisions, there is no possibility to provide a comprehensive definition of profit. Some financial analysts consider the quality of assets as ordinary, continuous and repeatable and generating cash flow from operation. They believe that quality of asset is a figure between reported net income and flow of cash from operation except unique figures. So far, financial experts have been unable to achieve an independent calculation of the benefit which they have the necessary quality. In this case, financial experts with appropriate adjustments can achieve a domain that is more accurately a reflection of reported quality asset. Thus the quality of asset is not a fixed defined concept which can be easily achieved. That is a relative concept having relation with different views and attitudes. There are different views about evaluation assets quality that the following number of cases will be examined.

Hunt the financial manager of General Milles believes in evaluation the assets quality, two points have been analyzed. One of them is having balance between current and previous profits of the company. Another is market perception of profit which is shown in P / E ratio. Hagen the financial manager of the Denivlez company believes that the quality of assets can be measured by identifying or omitting the effects of changing accounting methods, extraordinary items, market condition or temporary costs. Konoly another Financial analyst believes that assets quality can be assessed by measuring the value of renewable assets. Valen the financial manager of American broadcasting believes the quality of assets can be measured by the difference between reported profit and inflation profit.

Sloan proves that companies with higher reported assets of operating cash flow, the volume of accruals (in the coming years will experience a decline in operating profit. B.Mikhail believes that the profit which can predict future profit of cash flow of the institute has higher quality.

Review of literature:

One study has conducted by Wolf in 2008 with title of drivers of performance changes during privatization in England. This study finds those variables which adjust the impacts of privatization on changing performance of companies. In another words, it determines the extent of improvement arising from privatization. For this purpose, the effects of wide range of variables related to the firms on seven different aspects of performances were investigated. These aspect includes profitability, efficiency, investment in capital assets, production, employment, the structure of capitals and dividends paid based on a sample of privatized companies in oil and gas industry. The results show significant differences between criteria performances. On average, the most relevant variables are included in the list of companies, the remaining state-owned and economic development. The results also represent that in findings of previous studies, the driving performances were observed with a smaller scope that may not be damaged by Skewed variables.

Another study had been conducted in Hungary, Czech and Slovakia and Poland by Aussenegg & Jelic with title of operating performance of newly privatized firms in transition economies in Central Europe. That does not show any significant performance improvement for 6 years after privatization. Unlike in the case of developing and developed countries, privatized firms in this sample do not show significant improvements in profitability, investment in capital assets, performance and product. However, they experience significant reduction in employment and significant increase in financial leverage. Among the mentioned countries, Hungary was better in terms of profitability, while the financial leverage of Czech companies showed an increase compared to the other two countries experienced a decline in lower yields. This result suggests that privatization in transition economies had not significant effect on performance. Another study on 116 companies of privatized companies operating in the electricity distribution industry in Latin America had been conducted by Anders and his colleagues. This study had been the first systematic study of effects of privatization of electricity distribution sector and that a series of key indicators were used in this study and a wide range of indicators including production, employment, productivity, efficiency, quality, price, etc. were used in this study more than the other research. These researches also encompass a longer time range. It showed three time periods before privatization, privatization and post-privatization when compared with short term studies. In this research two methods were used. One of them was comparison the mean and median of the indicators used in each test

and the significance of changes between periods. Another one was an econometric model having fixed effects of firm, specific time trends and dispersion corrections. . The results suggest that changes would be followed like changes in ownership, significant improvements in labor productivity, efficiency and quality of the product or service. Most of these changes took place in transition period and the improvement more than two years became less after privatization.

Another study had been conducted by Müslümov in Turkey with title of financial and operational performance of privatized firms in Turkish cement industry. The findings of the study showed that when the criteria of performance of privatized and public companies were considered, privatization show diverse performance. In other words, the performance was worse after privatization and the total added value and return on investment had been reduced significantly . This decrease originated primarily from poor productivity of assets. But this decline in productivity is due to the increase in assets in capital assets of investment, because investment in capital assets had not increased significantly after privatization. A significant increase in the level of employment and financial leverage after privatization of these findings are most important points of this study. It also became clear that the privatization through the public offering, the gradual privatization and foreign ownership of local ownership(instead of foreign ownership) is an incentive for the financial and operational performance of the company after privatization.

Research hypothesis:

Hypothesis 1: privatization exerts a significant influence on functional performance of the companies.

Hypothesis2: privatization exerts a significant influence on investment in the company's assets.

Methods of research:

This purpose of this research is applied and the method is descriptive. (After the occurrence of events or causal) which uses historical data of previous periods, financial and operational performances of companies before and after privatization have been compared.

Spatial and temporal scope of investigation:

The time domain of this study includes years from 1379 to 1385. The spatial domain of this study was accepted in privatized companies and will be listed in Tehran stock exchange.

Statistical population and samples:

The population of this study is privatized companies accepted in Tehran stock exchange. A sample was selected using available information.

Data collection:

Collecting essential data is one of the basic steps of every research. And if essential accuracy has not been done regarding data collection, the results of the study will not be confirmed.

In the present study the data were gathered through librarian method in a way that essential information for review of literature and theoretical were gathered from books, journals, authentic papers, thesis. And statistical data and information essential for testing hypothesis were collected through Tehran stock exchange.

This information was extracted from audited financial statement of the companies.

Data analysis:

Paired test was used to analyzing the changing performance of financial and operational privatized companies before and after the process of privatization. In a way that normalization of the data has been tested and afterwards, a t-test has been used for paired samples. If the data do not follow normal distribution, nonparametric Wilcoxon statistical techniques used for paired comparisons. The operational and financial performances of privatized companies two years after and before the privatization process were compared with each other. All statistical tests of hypothesis of all population were analyzed by using SPSS and EXCEL.

Operational definition of variables:

Research variables:

Investment in company's assets:

It is the decision for investment in the long term and risky and capital assets. Capital investment is often used for buying instruments and machines of production. Thus, the final price, quantity, quality, innovation and management of the products all are under the influence of capital investments.

Functional performance:

It is defined as the doing of the work by human, machine or the organization with less consumption of the resources. Or in other words, the higher the ration of the output to the input, the higher functional performance.

Privatization:

It is a public effort to reduce the demotivation in public organizations to become more market based and efficient.

*Results:**The first test sub-hypothesis:*

Research and statistical hypothesis for the first hypothesis is as follows:

Sub-Hypothesis 1: there are differences between functional performance of the companies before and after privatization.

Ho: $\mu d = 0$

H1: $\mu d \neq 0$

In statistical hypothesis above, μd represent average of coupled data of functional performance of the companies. As can be seen in table below, the results of this test for this index show significant indicator. Thus, Ho is rejected and H1 is accepted. In another word the first sub hypothesis of this research cannot be rejected at 0.05 level error. And the functional performance of the companies is different in the period after the privatization of state enterprises in comparison with the period before it.

Table G the result of t-test of paired samples for index of functional performance of the companies.

Significance level	Degree of freedom	T	GD couples				d	
			Distance ensure%95		Standard deviation error	Standard deviation		mean
			Maximum	minimum				
0,028	19	-2,527	-1,52983E5	-2,03676E6	5,19081E5	2,26308E6	-1,214851E6	d

The second sub-hypothesis:

The second sub-hypothesis can be presented as follows:

Sub-hypothesis 2: there are differences between after and before privatization of firms regarding the investment in their assets and capitals.

Ho: $\mu d = 0$

H1: $\mu d \neq 0$

In statistical hypothesis above, μd represents mean of paired data of investment in their assets and capitals.

As was explained in previous parts, the index of profitability in this research has been investigated by 3 groups. Therefore, in this study for the three indicators of ROA, ROE and ROS separate statistical hypothesis were written. And each of them was investigated separately. As it has been observed in this table, none of the conducted tests is significant for 3 indicators. So HO is rejected. In another word, the investment in their assets and capitals after and before privatization do not have significant differences.

Table G the result of t-test of paired samples for index of functional performance of the companies.

Significance level	Degree of freedom	T	GD couples				d	
			Distance ensure%95		Standard deviation error	Standard deviation		mean
			Maximum	minimum				
0,128	19	-2,527	-1,11893E5	-1,93676E4	5,33020E5	2,26907E6	-1,214957E6	d

Discussion and conclusion:

The first hypothesis of the study was about the impact of privatization on functional performance of firms. As the results of first hypothesis which has been presented show the significant differences between the mean of average functional performance of the firms before and after the privatization. Since the average functional performance in the period after privatization is less than the pre-privatization, it can be concluded that privatization of state companies in Iran will cause the reduction in functional performance of the firms. This result is consistent with the results Jouykin Fingtin in 2009 that was conducted in China. Using this criterion to evaluate the performance of privatized firms in this study has been performed for the first time in Iran. By researching, it seems that it has been unique in foreign countries.

Regarding the fact that almost all of conducted studies about privatization of state firms have used indexes like profitability, liquidity, employment, using these indexes will make to have different approaches to the issue. It can be important for those researchers who in field of privatization. However, other indexes have been used in this study for better comparison.

Regarding the second hypothesis that is about the impacts of privatization on the investment in the firms, the criterion for investment is considered the total value of the investment in capital assets of the firms. As the results of the study shows, significance level in the results of the study is above 0.05 and this indicates that this influence is not significant. In other words, as the results shows, there is not a significant difference between the levels of the investment in capital assets of the companies before and after privatization. These results are

consistent with both the study conducted by Heshmati and Tatahi with title of operational and financial performance of privatized companies in Sweden and study conducted in Hungary, Czech, Poland, Slovika by Aussenegg & Jelic in 2006 with title of operational performance of newly privatized firms in economies in transition in central Europe.

For the conclusion it should be noted that there are many interest in the policy makers of Iran to privatize the state owned companies but the problem is the way of the privatization since, the results of many studies shows that there is not a significant difference between the companies before and after the privatization regarding to financial gains, performance, profitability, etc. This study paves the way for the other studies also to include a broader cohort of the variables before and after the privatization.

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