

Effects of Privatization on Performance: A Case of Telecom Corporation, Ardabil, Iran

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ABSTRACT

The term privatization is an inclusive and diverse word which refers to transferring operational control or ownership of financial institutions of the government to private sectors, or in other words, it is removal of any involvement and control in the establishment of mechanisms of supply and demand. The research method is cause and comparison with an aim of investigating the effects of privatization on performance in Telecom Corporation in Ardabil, Iran. Telecom Corporation of Ardabil has been chosen as the spatial domain from which financial ratios of years 2002-2004 (before being privatized) and financial ratios of years 2006-2008 (after being privatized) have been analyzed. Information and data needed for this research have been gathered through financial documents (balance and profit and loss sheets) stored in the Telecom corporation of Ardabil province. For analysis of data collected in this study with the help of software spss18 T-test was used. Research results indicate that there is a significant relation the between privatization and performance and in all cases the positive hypothesis (H1) is confirmed, that is, ratios average after being privatized was greater than before such a phenomena.

KEY WORDS: efficiency, privatization, liquidity ratios, activity ratios, leverage (financial) ratios, the ratio of profit.

INTRODUCTION

Poor performance of many companies and public institutions in general has shown that in principle the government is not a good businessman. Hence from the early 1970s the result of low performance of macroeconomic came to existence and since then gradually the efficiency of public sector activities came to question. After discussing the inefficiency of companies and government departments, privatization policy as one of the solutions to improve companies' performance and reduce government's authority was the center of attention. Privatization of governmental companies in Iran, Simultaneous with the first program of economic, social and cultural development (year 1990), was put forward with the aim of improving the efficiency of operations and reduce the size of government authority [1]. Ardabil Telecom Corporation under the Third Development Plan and in line with the decentralization policy and to reduce the monopoly made some changes in its structure and was obliged to privatize parts of their activities to private sectors. So through the current study it has been tried to investigate the impact of Privatization on the performance Ardebil Telecom Corporation.

Awareness is growing and it is self-evident that poor performance of most governmental sectors has caused irreparable failures in economic, and naturally, social, cultural and political activities. So the importance of the subject refers to the economic situation, the problem of lack of economic efficiency and productivity and the programs the government has planned through economic modification and privatization to solve the above mentioned problems. Because the matter of privatization is one of the major categories in many countries and is following some certain goals such as economic competition and efficiency, increasing investment efficiency, optimal use of facilities and the like, Ardabil Telecom Corporation has performed such a phenomena (privatization) to achieve its goals and increase its efficiency and effectiveness [2]. So the current study was done to study the effect of privatization on the performance of Ardabil Telecom Corporation.

In general, it can be claimed that privatization is a part of a broader economic policy which is referred to as the economic release or connecting to the world economy by some governments. Privatization is the process of changing the conditions of governmental activities so that the major context is fixed but the atmosphere of the sectors changes and the effect of atmosphere and conditions of markets on companies' performance is likely to consider private sectors' mechanisms [3]. In Iran, after Islamic revolution, due to various reasons, economic activities raised highly. As a result of this expansion in late 1360 and deficiency of government activities the privatization became one of the most prominent targets of development programs. So given the above mentioned points, the main goal of the current research is to investigate the effects of privatization on the productivity of the Telecom Corporation in Ardabil located in Northwest Iran.

Through the current research, Efficiency of Ardabil Telecom Corporation, which is a quantitative criterion, was evaluated using financial ratios. Efficiency means doing things right and properly regarding the input and output data. Financial ratios used in this study are:

- **Liquidity Ratios:** It Determines and assesses the ability to pay debts and short-term obligations of the company. [4]
- **Activity Ratios:** It measures and evaluates the degree of efficiency of the use of company resources [4].
- **Leverage (financial) Ratio:** it determines and analyzes the degree of the relation of funds used by the company with the Current and long-term debts, the relation between Liabilities and owners' rights and mode of financing [4].
- **Profitability Ratios:** it Measures profitability, return on sales and return on company assets [4].

Given the importance of the subject, a lot of studies have been performed in a number of countries. Taghizadeh (2009), through a study titled "Privatization in East Azarbayjan Telecom Corporation and Its role in Reducing Expenses", compared 12 privatized telecom corporation with 12 non-privatized (governmental) ones regarding their per capita cost of operating, per capita cost to fix damages and per capita wage and costs of labor maintenance. The results indicated that the costs were lower in privatized centers regarding all three above mentioned domains [5]. Razavi (2003) conducted a study titled "Increasing the efficiency through the privatization policy in the Physical Education Organization of Tehran". The results showed that 83.3 of Managers agree with the privatization policy and believe that such a policy is associated with the development and transformation in sport and improves the country's leading sports structure [6]. Through a study [7] titled "The effect of privatization on the performance of wheat storage units and public trading companies in Iran", Sameti et al., (2001) came to the conclusion that Coefficient model in private sectors is beneficial in the performance of storage places and also there is a direct relation between privatization and performance efficiency of storage locations and increasing private sector involvement in storage locations results in more efficiency. Farinos et al., (2007) through a study titled "operating and stock market performance of state-owned enterprise privatization: The Spanish experience" investigated the companies privatized in Spain through the years 1990-2001 and came to the conclusion that privatization has had a great impact on efficiency, sale income and employment [8]. Kerr et al., (2008) studied the privatization process in New Zealand and Australia through which they confirmed that the performance of companies after being privatized has improved greatly and privatization has increased the annual growth of New Zealand companies up to %12 and Australian companies up to %9 [9].

Trough Reviewing the research in this field, it can be claimed that there is a significant relation between privatization and efficiency and due to the importance and the role that privatization has in increasing efficiency and optimum use of resources, more research is needed to confirm or reject the findings of previous studies. To do so, in the current research it has been tried to investigate the relation between privatization and efficiency in Ardabil Telecom Corporation. The following hypotheses are suggested:

- 1) There are significant differences between liquidity ratio in the years after privatization and the years before privatization in Ardabil Telecom Corporation.
- 2) There are significant differences between activity ratio in the years after privatization and the years before privatization in Ardabil Telecom Corporation.
- 3) There are significant differences between Leverage (financial) ratio in the years after privatization and the years before privatization in Ardabil Telecom Corporation.
- 4) There are significant differences between profitability ratio in the years after privatization and the years before privatization in Ardabil Telecom Corporation.

The research objectives

The main objective of the current research is to investigate the effect of privatization on efficiency in Ardabil Telecom Corporation. Meanwhile, the following objectives have been considered:

- * To investigate the effect of privatization on liquidity ratio in Ardabil Telecom Corporation.
- * To investigate the effect of privatization on activity ratio in Ardabil Telecom Corporation.
- * To investigate the effect of privatization on Leverage (financial) ratio in Ardabil Telecom Corporation.
- * To investigate the effect of privatization on profitability ratio in Ardabil Telecom Corporation.

MATERIALS AND METHODS

The research method is cause and comparison and finally to test the research hypotheses the Analytical-Descriptive method was used. Since the domain of the research is Ardabil Telecom Corporation and financial ratios of years 2002-2004 (before being privatized) and financial ratios of years 2006-2008 (after being privatized) have been analyzed, research population and sample are the same.

Information and data needed for this research have been gathered through analyzing financial documents (balance and profit and loss sheets) stored in the Telecom Corporation of Ardabil province. Regarding the

reliability of data collection tools, it can be claimed that since used data was obtained from company documents and financial records and accounting, if similar research is done using these documents and data, the similar results will be gained. So it can be concluded that, relying on documents used, the current study is of high reliability.

In this study, to analyze data obtained from documents available in finance department, first, after separating and identifying the data of two periods (i.e., after and before privatization), the T-test was used to analyze those data and, second, based on the output of the T-test and the degree of significance for ratios, the pre-determined hypotheses were confirmed or rejected.

RESULTS OF THE STUDY

To examine the relationship between privatization and efficiency in Ardabil Telecom corporation following hypotheses have been put forward:

Null hypotheses: The average ratios before and after privatization are equal. $H_0: \mu_1 = \mu_2$

Hypotheses 1: The average ratios after privatization are more than such a phenomenon. $\mu_1 : \mu_2 > H_1$

Paired sample tests

Financial ratios and their dimensions		t	df	Sig. (2-tailed)
Liquidity ratios	Current ratio	-3.740	2	0.006
	Quick ratio	-3.971	2	0.005
	Cash ratio	-2.547	2	0.001
	Working capital ratio	-1.881	2	0.002
Activity Ratios	Total asset turnover ratio	-8.510	2	0.014
	Current assets turnover ratio	-3.024	2	0.009
	Inventory turnover ratio	-0.528	2	0.006
	Fixed assets turnover ratio	-6.905	2	0.020
Leverage (financial) Ratio	Debt ratio	-0.571	2	0.006
	Total debt ratio	-0.318	2	0.007
	Interest coverage ratio	-0.862	2	0.004
Profitability ratios	Company's total assets ratio	-6.725	2	0.021
	Normal profit margins ratio	-0.625	2	0.005
	The net profit margin ratio	-2.840	2	0.001

The first hypothesis: The Liquidity Ratios in Ardabil Telecom Corporation include current ratio, quick ratio, cash ratio and the ratio of working capital. To test the first hypothesis, first, this hypothesis was analyzed and tested for the components of the cash ratios and finally based on the results of cash ratios of Ardabil Telecom Corporation the following conclusion was suggested:

- The results of the T-test for the dimensions of the liquidity ratios were: current ratio (sig=0.006), quick ratio (sig=0.005), cash ratio (sig=0.001), the ratio of net working capital (sig=0.002), so in all dimensions of cash ratio the null hypothesis is rejected with an error of less than 5 percent ($\alpha=0.05$) and the opposite hypothesis i.e., H_1 is confirmed. So it was concluded that there is a meaningful difference between different dimensions of liquidity ratios of Ardabil Telecom Corporation after privatization compared with before privatization. Moreover, it can be claimed that average liquidity ratio in all aspects of the privatization has been more than before.

The second hypothesis: Activity ratios in Ardabil Telecom Corporation include turnover ratio of total company assets, current assets turnover ratio, inventory turnover ratio, and fixed assets turnover ratio. To test the second hypothesis, first, this hypothesis was analyzed and tested for the components of the activity ratios and finally based on the results of activity ratios of Ardabil Telecom Corporation the following conclusion was suggested:

- The results of the T-test for the dimensions of the activity ratios were: total asset turnover ratio (sig=0.014), ratio of current assets (sig=0.009), inventory turnover ratio (sig=0.006), and fixed assets turnover ratio (sig=0.020), so in all dimensions of activity ratio the null hypothesis is rejected with an error of less than 5 percent ($\alpha=0.05$) and the opposite hypothesis i.e., H_1 is confirmed. So it was concluded that there is a meaningful difference between different dimensions of activity ratios of Ardabil Telecom Corporation after privatization compared with before privatization. It can be, also, claimed that average activity ratio in all aspects of the privatization has been more than before.

The third hypothesis: Leverage (finance) Ratios in Ardabil Telecom Corporation include debt ratio, total debt ratio, interest coverage ratio. To test the third hypothesis, first, this hypothesis was analyzed and tested for the components of the Leverage (finance) Ratios and finally based on the results of Leverage (finance) Ratios of Ardabil Telecom Corporation the following conclusion was suggested:

- The results of the T-test for the dimensions of the Leverage (finance) ratios were: debt ratio (sig=0.006), total debt ratio (sig=0.007), interest coverage ratio (sig=0.004), so in all dimensions of Leverage (finance) Ratios the

null hypothesis is rejected with an error of less than 5 percent ($\alpha=0.05$) and the opposite hypothesis i.e., H1 is confirmed. So it was concluded that there is a meaningful difference between different dimensions of Leverage (finance) Ratios of Ardabil Telecom Corporation after privatization compared with before privatization. It can be, also, claimed that average Leverage (finance) Ratios in all aspects of the privatization has been more than before.

The fourth hypothesis: Profitability ratios in Ardabil Telecom Corporation include the ratio of profitability over the company's total assets, normal profit margin ratio, and net profit margin ratio. To test the forth hypothesis, first, this hypothesis was analyzed and tested for the components of the Profitability ratios and finally based on the results of Profitability ratios of Ardabil Telecom Corporation the following conclusion was suggested:

- The results of the T-test for the dimensions of the profitability ratios were: the ratio of profitability over the company's total assets (sig=0.021), normal profit margin ratio (sig=0.005), net profit margin ratio (sig=0.001), so in all dimensions of profitability ratios the null hypothesis is rejected with an error of less than 5 percent ($\alpha=0.05$) and the opposite hypothesis i.e., H1 is confirmed. So it was concluded that there is a meaningful difference between different dimensions of profitability ratios of Ardabil Telecom Corporation after privatization compared with before privatization. It can be, also, claimed that average profitability ratios in all aspects of the privatization has been more than before.

DISCUSSION AND CONCLUSION

Based on the results obtained, it was shown that privatization has increased the liquidity ratios, activity, financial (debt) leverage and profitability ratios in Ardabil Telecom Corporation, so the increase in financial (debt) leverage ratios reflects the company's poor performance in the years after privatization because in such a situation creditors will have less assurance and, moreover, in the view of lenders the less this ratio (financial (debt) leverage ratio), the better.

The findings of the current research are consistent with the results of Taghizadeh (2009), Razavi (2003), Sameti et al., (2001). It is also worth mentioning that, as Taghizadeh (2009) claimed based on his research results, to benefit from the experiences of other countries in attracting more private sector participation and increasing competition in the telecommunications market, it is imperative to recognize the structure of the industry of telecommunications.

Razavi (2003) confirmed that privatization in Physical Education Organization has positive effect and increases efficiency of Physical Education in Iran, likewise, through the current study it has been confirmed that privatization has a direct effect on efficiency of telecommunication industry of Iran.

Telecommunications market in developing countries is bilateral or multilateral monopoly, but the telephone markets and some parts of cell phone markets in Iran are under the control of the government, so based on the results of the current research as well as Taghizadeh (2009), Razavi (2003), and Sameti et al., (2001) the legislative agencies should make appropriate policies to achieve a suitable market for Iran. Information clarification, especially determining the amount of capital expenditures in the nongovernmental sector, should be at the top of privatization policy.

Based on the findings of the current research the following suggestions are recommended for further research:

- To examine the relation between privatization and management performance.
- To examine the impact of privatization on employees' sense of job security.
- To examine the failures of financial ratios in decision makings.
- To examine the analysis of financial ratios in decision makings.
- To examine the impact of privatization on staff's efficiency.
- To examine the efficiency of financial ratios in economic decisions and the like.

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