UGC APPROVED JOURNAL - 47746

© INNOVATIVE RESEARCH THOUGHTS | Refereed | Peer Reviewed | Indexed

ISSN : 2454 – 308X | Volume : 04 , Issue : 01 | January – March 2018

A study of Privatisation of Public Enterprises and it's implications on Economic Policy and Development

Mrs. Monika

(M.A. Eco, M.Phil., NET)

Extension Lecturer in Economics

Deshbandhu Gupta Govt. College Panipat

Email : 05061981m@gmail.com

Abstract

Academics, economists, and politicians were more likely to support public ownership of industries in the 1960s and 1970s than they were to support private ownership. However, by the late 1980s, public policy had shifted from favoring state control over the production and distribution of goods and services to encouraging private investment and management. The ineffective provision of services, loss-making state-owned enterprises (SOEs), excessive public debt, and low rates of economic development that included "state failure" as defined by the World Bank contributed to this. As a result, privatization has gained popularity in many nations as a means to promote efficiency, incentivize investment, and release public resources for use in infrastructure and social programs that boost economic development and distributional equality. Nonetheless, privatization has been criticized in recent years. Privatization has been criticized for a number of reasons, the most prominent being the misuse of market power and the resulting losses in social welfare. Most people in developing nations believe that the wealthiest profit more from privatization than the poor. To that end, the purpose of this research was to undertake an empirical examination of the claims and counterclaims about the effect of privatization on economic development and wealth distribution in developing nations. Eighty developing nations that privatized their SOEs between 1991 and 2002 make up the research sample. The study's results suggest that privatization did not significantly affect GDP growth but did have varying results for income distribution. However, the research shows that strong governance and other country-specific factors may be more significant than economic policy per se in fostering development and decreasing income disparity.

Key words: State Owned Enterprises, Public Sector Enterprises, Divestiture, Greenfield Privatization, Cold Privatization, Memorandum of Understanding, Asymmetric Information

Introduction

The term "privatization" is nebulous since it may refer to anything from complete decentralization to strict adherence to market principles. Overall, academics define privatization as a shift in organizational structure, emphasizing the dissimilarities between the private and public sectors in terms of their resources, organizational structures, and managerial styles. The term may also refer to the transfer of some governmental duties to the private sector, as well as the incorporation of market-based administration and policy. The basic idea behind privatization is that the private sector may be a more stable and productive economic development engine than the public sector in certain circumstances. There are times when privatization is necessary to improve things like "economic efficiency," "government budgetary expenses," "direct ownership of productive assets," and "the role of government, which may then be shrunk and reoriented to focus on the provision of social and economic infrastructure."

The author proposes five distinct models for privatization. First, there is the privatization of duties, which manifests as market deregulation, the outsourcing of functions to private companies, the dissolution of public entities, and the abolition or decrease of public services. Private property privatization is the second kind (total, majority stake, minority stake, and subsidiary). This may take the shape of a public offering of shares, a private sale, an auction, a sale to an investment fund, a restitution, a management buyout, a management and employee buyout, or the outright sale or transfer of assets. includes privatization of operation as its third kind. Methods such as public-private partnerships, leasing, operational concessions, and management contracts fall under this category. The fourth kind is called "financial privatization." This includes new or increased user charges, a switch to private welfare insurance, and public-private joint ventures, as well as private financing for the construction of public infrastructure. Marketization or commercialization, the fifth approach discussed, is characterized by competitive bidding between in-house and external contractors, reorganizing to establish an internal market, introducing commercial aims and processes, and/or corporatization. Similar to other big organizational interventions, privatization is likely to affect the organization's long-term goals, internal values, and operational procedures regardless of its specific shape. For instance, the shift might result in the implementation of new IT infrastructure and the optimization or reengineering of existing processes. Additionally, the transformation may target individuals and groups through having an effect on the business culture and employee contracts.

Impacts of privatization policies: empirical evidence

bring forward two collections of studies that analyze privatization's impact on third-world countries' economy. The first group they bring to our attention is made up of analyses that utilize statistics to determine how owning a business affects economic performance as measured by factors like profit, productivity, production costs, and financial ratios. Often, ownership status is included into the econometric model as an independent variable that affects the efficiency of the dependent variable, which is typically a measure of one of the aforementioned indicators. The second group of research looks at privatization case studies. Case studies provide a means of gaining access to rich descriptive data and analyzing the qualitative and quantitative implications of privatization. While both types of research provide helpful pointers for evaluating privatization's effects, they also have their limitations. Challenges include the lack of theoretical grounding in case studies and issues with data and technique in econometric research. With these caveats in mind, the purpose of this article is to provide a review of these studies in the hopes of shedding light on the ways in which privatization has affected economic performance, particularly in developing nations. Some analyses identify the 500 biggest non-US corporations in 1983 by their ownership structure as state-owned, privately-owned, or mixed-ownership enterprises and then compare their performance to that of privately-owned firms. By analyzing several profitability criteria, they conclude that privately held businesses are much more lucrative than their public and hybrid counterparts. By an examination of the public sector in the first three years after the Big Bang reforms of 1990, this article questions if privatization is necessary to improve the performance of SOEs in Poland. The changes included price liberalization, stricter fiscal and monetary policies, and increased incentives for competition. They determine that the state sector performance was improved enough by this macroeconomic stability package alone. privatized vs state-owned firm profitability in Central European transition economies to address the question of whether privatization is successful, while accounting for the effects of selection bias. Using panel data regression methods, they compare a group of 90 state-owned and 128 privatized Czech enterprises across four key performance indicators: sales, employment, labor productivity (revenue per employee), and material costs per unit of revenue. Using yearly growth rates as a metric, they conclude that the privatized group of enterprises performs better than the non-privatized group. The authors show, however, that privatization's performanceenhancing effects are nuanced and restricted to particular metrics of success and to sales of SOEs to foreign bidders.

Review of literature

(Kim & Panchanatham,) studied "The relationship between Economic Growth and Unemployment in India'" have discovered, and Indian economic reforms are noteworthy for allowing for the establishment of private sector businesses that are not beholden to any central government or other functionary administration. Due to its vital role in the country's investment and progress, the public sector here requires updating. Since India's state-owned companies (SOEs) may benefit from some dynamic reshaping, this essay seeks to examine the pros and cons of partial privatization and restructuring. Since India switched to market-based pricing and incentives with greater contract enforcement, central government SOEs have increased their profits, investments, and growth. When compared to private businesses, SOEs do better in terms of both profitability and efficiency in the manufacturing sector. The performance of SOEs in the services sector, however, is worse than that of their peers. Finally, the paper suggests strategies that will boost the efficiency of Indian SOEs.

(Sevil Acar 2017) studied "privatization policies and implications" have discovered, and In response to the tremendous economic liberalization of recent years, the privatization of state-owned firms (either partly or entirely) has increased. In tandem with this development, a plethora of research projects probing privatization have emerged. These have focused on various aspects of privatization, including its goals, timeline, approach, and outcomes. After privatization, questions of incentives and performance tend to be discussed. However, it is generally thought that privatization alone is inadequate to enhance economic efficiency and accelerate economic development, thus the techniques and conditions matter much in judging the success of privatization. To better understand whether and how privatization might boost economic efficiency and strengthen the economic standing of developing nations, this study aims to provide a survey of the relevant economic literature on privatization strategies.

(Pheko, 2017) studied "Privatization of Public Enterprises in Emerging Economies: Organizational Development (OD) Perspectives" have discovered, and Organizational efficiency, public spending, private ownership of economic assets, and the government's say over businesses are all theoretically all improved by privatization. While there is much promise in privatization, studies show that not all privatization initiatives are successful. The present research incorporates the existing literature in the OD area and recommends that OD

© INNOVATIVE RESEARCH THOUGHTS | Refereed | Peer Reviewed | Indexed
ISSN : 2454 – 308X | Volume : 04 , Issue : 01 | January – March 2018

interventions should be utilized to help in implementing privatisation, with the perspective that too much emphasis in the privatisation literature has been placed on economic and/or political reasons for failure. This study addresses the function of OD interventions in privatization design and implementation in an effort to fill this knowledge vacuum. The Burke-Litwin model is advocated as a solid framework for identifying the need for change and for organizing privatization initiatives in developing countries. Additionally, examples of how the model's many components might be utilized to evaluate the need for change, as well as to plan and execute such change from a multidimensional and multilevel systems viewpoint, are provided.

(Adams, 2017) studied “The Impact of Privatization on Economic Growth and Income Inequality in Developing Countries” have discovered, and Academics, economists, and politicians were more likely to support public ownership of industries in the 1960s and 1970s than they were to support private ownership. However, by the late 1980s, public policy had shifted from favoring state control over the production and distribution of goods and services to encouraging private investment and management. The ineffective provision of services, loss-making state-owned enterprises (SOEs), excessive public debt, and low rates of economic development that included "state failure" as defined by the World Bank contributed to this. As a result, privatization has gained popularity in many nations as a means to promote efficiency, incentivize investment, and release public resources for use in infrastructure and social programs that boost economic development and distributional equality. Nonetheless, privatization has been criticized in recent years. Privatization has been criticized for a number of reasons, the most prominent being the misuse of market power and the resulting losses in social welfare. Most people in developing nations believe that the wealthiest profit more from privatization than the poor. To that end, the purpose of this research was to undertake an empirical examination of the claims and counterclaims about the effect of privatization on economic development and wealth distribution in developing nations. Eighty developing nations that privatized their SOEs between 1991 and 2002 make up the research sample. The study's results suggest that privatization did not significantly affect GDP growth but did have varying results for income distribution. Economic policy may not be as effective as the study's authors had hoped in encouraging growth and lowering income disparity.

(Kaur, 2017) studied “privatization and public enterprise reform: a suggestive action plan” have discovered, and Since the 1990s, when the Indian government first began its reform effort, SOE reform has been a priority. Concerns concerning ownership, competition, and regulation—all of which touch directly on the question of the relative performance of publicly traded and privately held firms—have been given due consideration throughout the reform process. This paper examines the various reform options adopted by India to improve the performance of its SOEs, including Divestiture (where private ownership is introduced into publicly owned enterprises), Greenfield Privatization (where the private sector is allowed to enter and compete in areas previously reserved for the public sector), and Cold Privatization (where managers of SOEs are granted greater autonomy by having to sign a Memorandum of Understanding). In particular, the article provides an in-depth analysis of the disinvestment policies that have been put into place since 1990. Finally, the article summarizes the major results from an overarching policy viewpoint within the framework of the Indian SOE reform programme and offers a suggested action plan to encourage changes and enhance outcomes.

Conclusion

Nothing is permanent but change, thus reforms are necessary throughout all facets of society, but especially in the growing nations of Asia. Businesses, including SOEs, require policy guidelines that take into account the world of work as it evolves. The privatization of state-owned enterprises (SOEs) is a reform initiative. The privatization process has pros and cons for a growing country like India. The key aspects of privatization have been outlined in this study. It is possible for public firms to achieve both the profit-making objective and the social responsibility agenda by operating extremely effectively, like private sector organizations, without actually privatization the enterprises. To improve the effectiveness of SOEs in India, the process of reforms, including complete and partial privatization, must continue on a daily basis. Whenever new policies are being implemented, social fairness is always a must. Investment from ordinary citizens in SOEs as shareholders is a certain way to boost both performance and accountability. When making financial and concessionary decisions, government agencies should avoid subsidizing failing or otherwise troublesome businesses. Lacking modernization of equipment and upgrading of people's abilities, Indian manufacturing enterprises display poor performance, notably financial performance while adopting product mix diversification. These businesses contribute positively to the operating margin prior to direct labor but often generate a loss after EBITDA is included in. Restructuring and divestments are two options for addressing this problem.

References

© INNOVATIVE RESEARCH THOUGHTS | Refereed | Peer Reviewed | Indexed
ISSN : 2454 – 308X | Volume : 04 , Issue : 01 | January – March 2018

1. Adams, S. (2017). The impact of privatization on economic growth and income inequality in Sub-Saharan Africa. *Journal of Social, Political, and Economic Studies*, *31*(3), 295–320. https://doi.org/10.25777/af59-8745
2. Kaur, S. (2017). Privatization and Public Enterprise Reform: A Suggestive Action Plan. *Economic Growth, Economic Performance and Welfare in South Asia*, *April 2004*, 249–269. https://doi.org/10.1057/9780230520318_12
3. Kim, K., & Panchanatham, N.. *Reform and Privatization of State-Owned Enterprises in India*. *1057*, 157–168. https://doi.org/10.1007/978-981-15-8574-6_8
4. Pheko, M. M. (2017). Privatization of Public Enterprises in Emerging Economies: Organizational Development (OD) Perspectives. *International Journal of Business and Management*, *8*(20). https://doi.org/10.5539/ijbm.v8n20p25