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Privatization Effects on the Stock Return and Performance of Listed Companies Tehran Stock Exchange

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ABSTRACT: One of the main goals of privatization in different countries is to improve the performance and efficiency. Therefore, this study titled "Privatization effects on stock return and performance of listed companies Tehran Stock Exchange" is written as experimental. The purpose of this research is to measure the success of the companies subject to privatization and in case of failure, find reasons and solutions for it. Researcher, According to the literature related to privatization and theoretical foundations related to the performance and stock return, research`s hypotheses in order to test presented on 10 hypotheses. Research Methodology is from the type Inductive-deductive. Financial information is collected, by using Computational models and statistical techniques, hypotheses have been tested. Statistical population includes Companies that from 2004 -2010 on the implementation of the privatization policy have been transferred and at the end of 2012 has been a member of the Stock Exchange. According to the length of time, ownership of 19 companies private has been diagnosed and as population was investigated. The results show that, privatization did not affect improving performance of companies which transferred to the private sector. In other words, the research hypotheses based on improving the performance of companies after the transferring have been rejected.

Key words: Privatization, Financial Ratios, Stock Return, Value-Added, Productivity

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INTRODUCTION

According to the situation industry in country, we see that performance of manufacturing firms under government has been fallen. Transferring these sectors to the private sector can increase efficiency and optimal use of production factors. the common definition of privatization," Transfer of ownership and changes in the balance between the role of government and the private sector in the economic activities, is called privatization." privatization relatively is new phrase since the early 1980s has been in economic literature. Privatization of governmental companies in response to problems caused by the spread of indiscriminate government intervention in the economy during the 1960s and 1970s. The complexity, uncertainty, concern and sensitivity to environmental conditions and internal tools are various and important characteristics of privatization policy and because of the significant impact on the economic and social structure of the country, has its proponent and an opponent. In most countries, privatization has been political support and private ownership brings many economic benefits. Public and under government companies do not have efficiency, the development and application of new technologies is not fast enough and political interference is so much. Therefore privatization is a tool for escaping from loss, extending of stock ownership, reducing public debt and budget deficit. That is why, supporters of privatization emphasized on efficiency as a result of privatization.

Review of Literature

Ike and Wanrapee (2006) discussed functional changes of 103 companies around the world during the years 1993 to 2003 were released from the public sector to the private sector. They found Privatization improves the performance of companies in different industries by increase, Profit, operational efficiency, capital stock premium, and dividend profit, as well as , reduction in financial leverage. Kevin and Robertsb (2007) evaluated based on a sample of 2164 Polish cooperative companies, effects related privatization of manufacturer cooperative companies. They found that the total production declines a percent the year leading up to privatization but a year after privatization 3 to 20% and three years after privatization has increased from 9 to 26% as well as capital has risen 6 to 16%.They concluded that the interaction between government and cooperative companies and budget allocation can lead to more production. Ker et al. (2008) examined the effects of Privatization on company and stock market in New Zealand and Australia and Showed that the company's performance has improved significantly after privatization. So that privatization increases the annual growth rate of 12% for companies of New

Zealand companies that this rate for Australian companies is almost 9%. Huang and Wang (2010), reviewed performance of 127 Chinese companies which were transmitted from public sector to private sector. They also claim that the increase in profitability and performance will have a greater impact when privatization is accompanied by the granting control authority. Almasi (2002) examined the impact of privatization on financial performance of accepted companies in Tehran Stock Exchange. In this study by use of three financial ratios EPS, ROA and ROE investigated performance of 5 years before and after transmit of 42 companies to private sector. Results show that, after privatization the company's financial performance has not significantly change. The privatization policy has failed to achieve its objectives of improving efficiency and productivity. Ghalibaf Asl et al. (2005), The effect of type of ownership on performance three years before and after the transfer of 18 companies in the Tehran Stock Exchange during 1991-2000 has examined. Generally results showed although the companies` performance improved after transfer but statistically significant difference between the performance of companies before and after the transfer was not found. Boroujeni 2010, investigated effect of privatization productivity in Iran. Statistical population includes 21 companies which transferred to private sector during 2000-2008 and concluded that privatization could increase productivity in the studied company. In addition, the researchers found that stretching after calculating 10% increase in capital and labor, in order to increase the production rate is 2% and 5%. Mirzadeh et al. (2009), examined effect of privatization on financial performance, economic and social of 46 transferred companies to private sector by Stock Exchange during 1996-2004. They reviewed performance of three years before and after privatization by use of T-test, in total, all the parameters tested, changes were not significant or observed negative changes and finally have concluded that privatization has not improved corporate performance.

Research questions and hypotheses

Major objective: The main objective of this study was to answer the question, whether the transfer of governmental companies has led to changes in the stock return and performance or not?

According to the research objectives in this study considered the following hypotheses:

Hypothesis 1: privatization has a significant positive effect on average of stock return of companies that have transferred all or part of their shares via the Stock Exchange.

Hypothesis 2: privatization has a significant positive effect on total factor productivity of companies that have transferred all or part of their shares via the Stock Exchange.

Hypothesis 3: privatization has a significant positive effect on labor of companies that have transferred all or part of their shares via the Stock Exchange.

Hypothesis 4: privatization has a significant positive effect on increase the capital productivity of companies that have transferred all or part of their shares via the Stock Exchange.

Hypothesis 5: privatization has a significant positive effect on liquidity ratios of companies that have transferred all or part of their shares via the Stock Exchange.

Hypothesis 6: privatization has a significant positive effect on activity ratios of companies that have transferred all or part of their shares via the Stock Exchange.

Hypothesis 7: privatization has a significant positive effect on financial leverage of companies that have transferred all or part of their shares via the Stock Exchange.

Hypothesis 8: privatization has a significant positive effect on profitability ratios of companies that have transferred all or part of their shares via the Stock Exchange.

Hypothesis 9: privatization has a significant positive effect on market value added of companies that have transferred all or part of their shares via the Stock Exchange.

Hypothesis 10: privatization has a significant positive effect on Economic Value Added of companies that have transferred all or part of their shares via the Stock Exchange.

MATERIALS AND METHOD

Type of research due to goal is practical and due to variables control is non-experimental and causal-comparative type. For subject literature Section, Library method was applied for data collection, Documental method was employed for data collection in order to comparison of companies' performance, information and financial document, as well as used of codal.ir, rdis.ir, seo.ir sites and SPSS and excel software were employed. Research population consists of all public companies that their shares are more than 20 percent in the years 2005 to 2010 have been transferred to the non-public sector. In the current study, the independent variable is privatization factor .The stock return and performance is considered as the dependent variables.

The research variables are defined as follows:

1. Privatization: privatization is assets trans-mission or services distribution from government to the private sector while the government is still dominant actor (Fafaliou and Donaldson, 2007)

2. Stock return: The stock return, a set of benefits accrued to a share during the fiscal year .Stock return in the study has been extracted of RAH AVARD NOVIN software the Stock Exchange.

3. Performance appraisal: Assessment involves analyzing the effects of the financial and economic decisions and comment on their, through the use of comparable criteria. Performance measurement criteria are combined, accounting and economic concepts. Accounting criteria used in this study consist, financial ratios means, Liquidity ratios, Activity ratios, Leverage ratios, Profitability ratios. Economic criteria involve, Economic Value Added (EVA), Market Value Added (MVA) and productivity.

As previously mentioned, financial ratios are classified into 4 groups:

A) Liquidity ratios: A-1) Current ratio = current assets / current liabilities A-2) Acid ratio = acid assets (inventory-current assets) / current liabilities

B) Leverage ratios: liability ratio = total assets/total liabilities

C) Activity ratios: C-1) Total assets turnover ratio = Net sale / Total net assets

C-2) Inventory turnover ratio = Net sale / Total net inventory

D) Profitability ratios: D-1) Return On Assets (ROA) = Net profit / Total assets

D-2) Return on Equity (ROE) = Net profit / Equity

Economic criteria:

A) Market Value Added (MVA) = (Number of issued shares) (share price) – Equity

B) Economic Value Added (EVA): it offers the basis for determining the performance management at all levels (Ahmadpur and Yahya Zadeh Far, 2004)

EVA = NOPAT – (c × Capital)

C) Productivity: C-1) productivity of whole of company = total revenue in t year / Total costs in t year C-2) productivity human resources of whole of company = Total revenue in t year / Average number of employees in t year C-3) the company capital productivity = Total revenue in t year / fixed assets value of Company in t year (Varasteh, 2009)

RESULTS

According to table (1-1) by use of Paired test, null hypothesis rejected and hypothesis 1 confirmed.

Based on table (1-2), the results show that privatization did not increase productivity of capital and human resources. In other hands, productivity is combined of factors` productivity (capital and labor). So privatization did not affect transferred companies` productivity. In other words, all of hypotheses based on productivity after transferring are rejected.

According to the Tables 1-3 and by use of Paired test, null hypothesis confirmed and researcher hypothesis is rejected. So the financial companies after privatization have not recovered.

Based on Tables 1-4, null hypothesis confirmed and research hypotheses are rejected. So value added (market and economic) of companies after privatization have not recovered.

Table 1. Investigation of average amount of companies' stock return before and after transferring

Explanation	Average of Differences	95% Range of Difference of Averages		T-Statistics	df	Sig
		Low Limit	High Limit			
Difference of Amount Average of Companies `Stock Return Before and after Transferring	-41.1964	-79.7191	-2.67016	-2.143	53	0.037

Table 2. Investigation of The average of difference amount of companies` productivity of total factors, labor, capital before and after transferring

Explanation	Average of differences	95% Range of difference of averages		T-statistics	df	Sig
		low limit	high limit			
Difference of Amount Average of Companies` Productivity of Total Factors Before and after Transferring	0.883125	-1.872266	0.106015	-1.789	53	0.079
Difference of Amount Average of Companies` Productivity of Labor Before and after Transferring	5.550040	-1.66314	5.531300	-1.004	53	0.32
Difference of Amount Average of Companies` Productivity of Capital Before and after Transferring	0.43755	-0.60257	1.47767	0.843	53	0.403

Table 3. Investigation of average amount of companies` Liquidity, Activity, Financial leverage, Profitability ratios before and after transferring

Explanation	Average of differences	95% Range of difference of averages		T-statistics	df	Sig
		Low Limit	High Limit			
difference of amount average of companies` current liquidity ratio before and after transferring	0.01737	-0.19666	0.2314	0.163	53	0.871
difference of amount average of companies` Acid ratio before and after transferring	- 0.00563	-0.17386	0.16261	-0.067	54	0.947
difference of amount average of companies` asset turnover activity ratio before and after transferring	-0.08655	-0.25783	0.08473	-1.013	53	0.316
difference of amount average of companies` inventory turnover activity ratio before and after transferring	-119.588	-290.1677	50.99081	-1.405	54	0.166
difference of amount average of companies` financial leverage ratio before and after transferring	-0.29882	-0.65503	0.05738	-1.681	53	0.098
difference of amount average of companies` Profitability Return on assets ratio before and after transferring	0.02679	-0.05446	0.10804	0.661	53	0.512
difference of amount average of companies` Profitability Return on Equity before and after transferring	-0.36864	-1.1197	0.38242	-0.984	54	0.33

Table 4. Investigation of average amount of companies` MVA and EVA before and after transfer to private sector

Explanation	Average of differences	95% Range of difference of averages		T-statistics	df	Sig
		Low Limit	High Limit			
difference of amount average of companies` MVA before and after transferring	135752000	-196986000	468491000	0.818	53	0.417
difference of amount average of companies` EVA before and after transferring	112462000	-296078000	71154300	-1.227	53	0.225

DISCUSSION

The results of hypotheses` test show that, in administration of transferred company to private sector has not occurred significant changes and privatization couldn't affect companies` performance. In other words, all of research hypotheses based on performance improvement after privatization are rejected. One of the main reasons for this result could be due to a combination of different industries in the territory where it is desired. But in this research according to bid of majority of companies and lack of sufficient information from these companies, especially in the period after transferring, spent a lot of time for data collecting and information related to 19 companies gathered and analyzed. So the industry segregation was not possible.

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