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Impact Analysis of Privatization of PTCL in Pakistan

Abstract

Primary objective of a government is to ensure provision of public services to the entire nation and by developing mechanisms to make sure that impartiality is exercised in execution of different tasks. State has the responsibility to protect and serve the best possible interests of the public. On the other hand, it is the responsibility of people to obey all the laws constituted by the government, hence a social contract or public contract comes into existence where both parties have some responsibilities towards one another. One part of this social contract and provision of its services is accomplished through public sector organizations. Thus, a societal relationship is developed.

1. Introduction

1.1 Background

There are examples in the world where public entities have performed tremendously in order to prove themselves as global companies. Examples of these are Haier, Dubai Ports, Temaesk (also have contribution in SingTel and Singapore Airlines), Emirates Airline, Malaya Petronas and China National OFFSHORE Oil Corporation (CNOOC). These global companies have proved themselves as best companies in terms of employee retention, customer satisfaction and in contributing towards boosting up economy and interestingly all these giant organizations are state-led institutions excelling in their domain challenging the idea of shifting ownership from public to private hands in order to ensure higher performance. Examples of such previously well performing companies from Pakistan include PTCL (formerly state-owned), Pakistan National Shipping Corporation (PNSC), National Bank of Pakistan (NBP) and Pakistan International Airlines (PIA).

According to Lan (1992), NPM reforms generally refer to mode of deregulation, privatization and marketization. As per Lan and Hood, privatization is a tool of New Public Management. So, as per definition of NPM, privatization is one of the main components of NPM.

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According to Dannin (2008), the available literature shows us the effects of privatization i.e. merit and demerits. So, it is vital to know that why the role of state owned enterprises is transferred to private firms and whether the effectiveness and efficiency of former state owned enterprises has improved?

Privatization has been practiced in different sectors in different economies, as this study deals with a company from telecom sector, therefore, only trends in this sector have been highlighted. According to Molano (1997), privatization in telecom sector was initiated by British government in 1981, followed by Japanese government who privatized some of the shares of “Nippon Telephone and Telegraph” in 1984. Another importance of telecom sector is its contribution in economic activities due to the fact that telecom sector is the basic ingredient when it comes to technological and communication advancements. Moreover, telecom sector’s importance can be judged from the fact that, privatization of state-owned telecom enterprise led to the collapse of governments in Greece and Argentina (Molano, 1997).

Telecom sector was considered to be highly efficient and effective in the 19th century. This sector gained immense popularity in terms of health services and made a monopoly as no one could match telecom sector in its pace of development, but tables got turned with the British telecom privatization for the first time in history of telecom, and so far, almost each developed and undeveloped country is in the race to privatize the telecom sector (Petrazzini, 1996). Pakistan has also been practicing privatization since 1990’s at a larger scale and by the end of 2000, privatization of about US\$ 2.0 billion was aggregately made and about half of the contribution was from telecom sector.

Pakistan Telecommunication Company Limited (PTCL) has its long history. It has seen many ups and downs during its whole life. The performance of PTCL can be measured through its unique role of monopoly that it had/has no competitor at all, in terms of landline services. PTCL was considered as a telecom giant in Asia by 2005. In 2006, privatization of PTCL was completed. Initially, three companies were involved in bidding i.e. Singtel (Singapore), Etisalat (UAE), and China Mobile (China). Result of bidding was conclusive as Etisalat won with healthy margin. Then, Pakistan government sold out 26% shares along with the managerial control to UAE based company in just US\$2.6 billion (The News, 2006). On the basis of background of the study, subsequent are the objectives and research question of this study:

1.3. Research Question:

What has been the impact of privatization of PTCL in terms of:

- a) Financial performance
 - b) Management and employee views
 - c) Customer experience
2. Literature Review

“NPM” term coined in the late 1980s to denote a new stress on the importance of management and ‘production engineering’ in public service delivery, often linked to “doctrines of economic rationalism” (Hood, 2001).

Last few decades have been linked with a “fundamental shift” in the principles that have been used in the governance of public sector in the modern world. This shift has been a result of “reinvention” of the idea that how governments and its units should perform; in other words this conversion is a step towards ‘new public sector management’ model (Gahn, 2007).

According to Haque (2004), one of the most influential factors in emergence of New Public Management (NPM) is the ideological shift since late 1970’s. This was the era when the world moved towards “neo-liberal framework”, when the concept of welfare state weakened and government machinery such as bureaucracy was accused for being inefficient. He further added that originating from USA and UK, the NPM model has not only expanded over capitalist nations but also Asian countries because particularly the concept of NPM has been reinforced by world renowned developmental institutions. This very idea is based on the concept derived from the “modern politico-economic theory favoring free trade, *privatization*, minimal government intervention in business and reduced public expenditure on social services” (Collins).

According to Osborne and Gabler (1992) there are multiple ways or options for governments to choose from various service deliveries. Instead of providing the services itself, government may choose for contracting out, franchising, public private partnerships or *privatization* itself.

This study only deal with the idea of privatization, therefore, the following sections of literature review addresses this only. Nevertheless, international context plays an important role in determining the local role of policy making that is why it is crucial to highlight the global context of privatization.

“Privatization is the transfer of enterprise ownership- in whole or in part- from the state to private hands, also called denationalization” (Savas, 2000) . Moreover, Megginson and Netter (2001) define privatization as “the deliberate sale by a government of state-owned enterprises (SOEs) or assets to private economic agents”.

From last few decades, the debate on merits and demerits of privatization is getting strengthened as diverse Literature on privatization and its impact is available. Numerous studies are available that declare this phenomenon as positive and at the same time large amount of research disapproves this notion. This study first discusses some of the merits of privatization, followed by counter discussions by different researchers.

Privatization has gone on to become an outstanding phenomena in first world as it proved it’s positive impact on a country’s economic growth, privatization along with “appropriate structural reforms, creates incentives to improve economic efficiency, increase investment, and adopt new technologies” (Filipovic, 2005).

Through an empirical investigation on Zambia, Beddari (2011) concluded that privatization was positively related countries economic growth i.e. Gross Domestic Product (GDP). Similarly, Kousadikar and Singh (2013) in their study on India concluded that privatization lead to not just financial strengthening of the sector under study but also overall performance as well. A study was done on 65 different banks to evaluate the performance after privatization of each. Study concluded that there was a positive chunk came after privatization in most of the banks and contributed towards positive growth (Verbrugge et al. 1999).

Numerous studies have been done on the evaluation of financial performance of telecom sector of pre and post privatization throughout the world. Wallsten (2001) in his study explained the phenomenon of privatization as a useless concept in determining the escalation of financial performance of telecom sector as he concluded that privatization does not play any role in improving the financial condition of telecom sector instead new and improved introduction of structural reforms are enough in determining the increase in financial performance.

Siddiqi et al. (2012) evaluated the financial performance of pre and post privatization of PTCL and took various financial variables such as Revenues, Net Margin, Market Value per Share and Earning per Share. The output of the study is that financial position of PTCL was healthy before PTCL but has gone down significantly after privatization.

Financial measures are not enough to conclude whether privatization is a successful concept. Customer satisfaction also plays its vital role. Customer facilitation cell is the only unit in PTCL which has direct interaction with customers so it is vital to know how service delivery can facilitate customer satisfaction. Customer satisfaction can be described by the attitude of using same facility over times. If customer uses services on consistent basis which means that customer is satisfied with the service and vice versa. If the service provider provides services on the expectations of its clients, it simply leads to the high customer satisfaction (Homburg and Bruhn, 1998). As not much literature is available on the views of employees and management upon privatization, so the researchers have outlined the interview questions in order to respond to research questions keeping in view the basics of questionnaire constructs.

3. Theoretical Framework

NPM has gained tremendous growth over past few decades. NPM has not only been adopted by developed countries but also been rationalized by third world countries. Transition of NPM from developed countries to developing countries is a big question mark as the beneficiaries of NPM are the wealthy nations while developing countries are still the victims of this sadistic wave.

Privatization is one of the key components of NPM. Nations have been in the circle of privatization around the globe since 1980 (Smith et al. 1997). Though, it remained successful in first world countries somehow but tables turned when third world countries also started to be the part of vicious circle of privatization. Privatization have both its merits and demerits at the same time as discussed in

literature review but one thing is to ponder over here that privatization is not something which can be imposed on any of the nation as it will give futile outcomes in future for that vary nation (Khan&Saeed, 2015).

3.1 Creation VS Construction: Social Construction and Reality

Before moving onto Organizational Theories that address emergence of privatization and its dissemination into different economies, it is important to discuss emergence of these concepts and theories themselves and how these practices got evolved and can such ideas of practices be declared universally applicable and relevant to all cultures and contexts. The answer to this query comes from Social Construction theory. This theory has been associated with several disciplines such as sociology, psychology and others. The purpose of discussing this theory before organizational theories is to understand that organizational theories i.e. Institutional and Transaction Cost theories are themselves socially constructed ideas and can have validity issues in other societies or across the borders.

Social Constructionism is fundamentally “an anti-realist, relativist stance” (Hammersley, 1992 ;Craib, 1997). Social Constructionism theory tells that reality is something subjective and created by Social Constructionists and they then propagate it by labeling it as universally true. Creation is synonymous with Reality and closed to nature, it is something not artificial or non-structured (Extra-human efforts) whereas Construction is a result of an individual’s deliberations that may or may not be true for all scenarios i.e. self-made by humans or specific group of people (in result of human efforts) (Andrews, 2012).

Following the creation of knowledge or concept i.e. in this case idea of privatization as explained by Social Construction theory, further two organizational theories provide explanations to the question that what was the basis of privatization in Pakistan, particularly PTCL and how did this new form of organization came to existence. Institutional theory deals with the cultural and political dimension, whereas Transaction Cost (TC) theory deals with the economic rationale to privatization.

3.2 Institutional Theory

Institutional theory deals with the basic question i.e. why do organizations exist and how do they develop over time (Scott, 2001). This theory has a number of dimensions and answers to the aforementioned principal question. It also discusses how and why do organizations try to become similar to others in their environment. DiMaggio and Powell (1983) provide three reasons or justifications as to why organizations or institutions try to copy others or adopt the practices that prevail in entities around them, broadly he labels this phenomenon as Isomorphism and three types of Isomorphism are called:

3.2.1 Coercive Isomorphism: It refers to the scenario when some organization is forced to follow a way i.e. rather forced by government or any other authority such as developmental financial institution for instance.

3.2.2 Mimetic Isomorphism: This is a situation when organizations copy each other when they are uncertain about which path of action to follow. An example could be that in developed countries, infrastructure sector has undergone heavy privatization and apparently their services are going well, so we (PTCL's administration) should also peruse it.

3.2.3 Normative Isomorphism: This idea explains the change or development in terms of norms set. It refers to a situation when for instance "bodies of professionals or managers at different organizations are trained in similar way or when they interact professionally" they formally or informally decide to do something in a particular way. For example at the World Economic Forum, finance ministers of several countries meet and decide about adopting privatization as a tool for raising funds for government or as a tool for improving a government enterprise.

As this study deals with the reason for which the organization i.e. PTCL was privatized and the study also from this perspective aims to explore the global links of privatization wave in Pakistan. Institutional theory gives the aforementioned perspective to our objectives.

3.3 Transaction Cost Theory

Transaction Cost theory comes up with a different explanation to the idea of why an organization comes to existence or why does an organization take up a specific form. According to Hesterey et al. (1990) "Organizations are governance mechanisms for supporting exchange". Transaction Cost is basically the cost of controlling or monitoring and it is the cost benefit analysis that guides an organization to decide regarding self-producing something or outsourcing. Main aim of forming a new setup or hiring an agent is better services at least possible costs. Basically, Transaction Cost theory argues that a company tries to (and they should) minimize the costs they bear while providing any service or product.

In a nutshell, on the basis of this theoretical framework or conceptual model, this study firstly aims to explore the reasons as to why privatization of PTCL was done (from where this idea came), along with an evaluation as to whether this decision of its privatization was correct. Depending on the evaluative dimensions mentioned in literature, this study evaluates privatization of PTCL as a success or failure story using financial measures (Siddiqui et al. 2010), Customer Satisfaction criteria and Employee Orientation. Such a study provides a holistic approach and shall help in coming up with a verdict unlike most of the studies that only rely on financial measures.

3.4 Methodology:

The research design that researchers have used in this study is 'Explanatory'. This design is used in a qualitative study to explore any phenomenon and to develop causal explanation of something i.e. cause of the consequence of interest.

Primary data was collected from the customers and employees/management using the tool of questionnaire and interviews respectively. Some secondary data was

also included like official documents of this company, such as financial statements including income statement and cash flow statements.

From employees and management point of view, 10 employees (survivors) have been interviewed along with 3 employees (victims) while 2 management personnel have also been interviewed. As far as customers are concerned, data are collected from 200 customers.

4. Data Analysis and Discussion

For years PTCL had been an Asian telecom giant, it was considered as a helping hand in terms of economic growth. With selling of 26% shares; the management control was also handed over to Etisalat, usually management control is given to the shareholder that has at least 51% of shares but this unusual activity raised more concerns regarding transparency of privatization of PTCL and soon after privatization, as per analysis of financial statements and indicators; contribution towards economic growth has declined over the years.

As shown in figure 1, revenues of PTCL started to decline after the very first year of privatization, dropping from 90 billion rupees to 55 billion rupees. This was the time when the telecom sector was giving positive signals and contributing well towards the economy but government of Pakistan had some other plans. Due to sharp decline of PTCL's revenues, Net Margin also declined to more than half from 31% to 15% after privatization. Not just these broad indicators, but also other indicators gave negative signals i.e. PTCL's liabilities in the form of debt equity ratio increased after the privatization hence further showing inability of management to improve organizations performance. Similarly, average share price of PTCL was Rs. 70 before privatization but in 2013, it dropped to Rs. 28 which again is one of the negative outcomes of privatization depicting the lack of interest of the investors on the post privatization management. Due to PTCL's poor performance in the stock market, Earning Per Share (EPS) also declined to almost one half. PTCL had 25% of Return on Equity (ROE) before privatization and in year 2013, it declined to 12.5% which is another poor indicator of growth of PTCL failing to attract more investors. Moving on, dividend on share also has shown no change at all after this restructuring, dividends remain at Rs. 2 per share despite passing of 8 years. Lastly, Fixed Asset Turnover (FAT) ratio could not increase after privatization rather remained same to Rs. 1.

During privatization, employees had a little say in privatization policy implementation and were not consulted (survivors and victims') in any matter during this process. Literature also supports this result, according to Fatima and Rehman (2012) employees remained in the dark during the entire process of privatization as they do not even know what is going to happen the next day, will they be serving the organization tomorrow or will they be laid off.

Employees of PTCL have given strong arguments against privatization, as most of them think that after privatization, job security has been a major threat for the employees because if job insecurity exists how an individual can come up with optimal performance. According to an employee,

Fear of job security exists in the mind of survivors due to immense layoffs after privatization as about 36,000 employees were virtually laid off from PTCL. Even downsizing was not fair in terms of merit as most of the intelligent assets of company were also fired during the process and those people remained who had some sort of links with the management of PTCL. As per one employee,

“I do not know where I will be after twenty four hours”. He further added “Situation was just like a bomb which may explode any time, and whoever will come in range will curse his fate”.

Referring to the number of complaints and customer satisfaction, employees have totally nullified the achievement of this privatization objective. This objective has not been accomplished so far, though the product line has been diversified but the complaint numbers and frequency is still an issue that needs attention.

Moreover, employees could not find any justification of increasing the costs of products and services as according to the respondents, though the costs have increased but still the desired level of service to the customers have not been provided. One of the employees said,

“Even its brutal objective of raising revenues at the expense of customers has not been met, then how can one say that these increased costs are justified?”

Furthermore, victims had almost same views like survivors but they were just being comparatively more straightforward in giving their opinions.

The only stakeholder that looks contented from privatization is the management as it was the one who was involved in privatization process. As per management, to compete with others it is necessary to provide better quality of products and services and that is why PTCL management had no other option but to increase the costs. Moreover, downsizing was aimed at reducing the expenditures by removal of excess number of useless human resource, but one may question that even after downsizing why extra revenues were not generated rather they fell down badly. Management thinks that the objectives of privatization are ideal and are in the process of accomplishment. Furthermore, though the financial performance has been declined but in near future, it will boost up.

As far as data collected from customers are concerned, satisfaction in the form of Product diversification and increase in options exists. Customers (33%) feel that products have increased since privatization, in the form of internet service options (DSL), Smart TV, EVO but talking in terms of cost justification, the desired quality has not been provided. On the other hand, 26% customers do not even feel contented with the extent of products and services while 41% of them were neutral in their responses. Rest figures as these are already discussed in Data Collection section.

It is quite evident that most of the customers (53%) want to switch from PTCL as they do not feel pleased with its services and just 31% of the customers want to remain with PTCL while 16% being unsure. One of the most vital part during data collection was that when asked from customers whether they are happy with the

pre privatization era of PTCL, 56% of the customers were of the view that they were quite contented with the overall performance of PTCL while just 29% customers were not contented with the performance of PTCL leaving 15% customers having neutral views. Customers were happy with the products and services of the organization but when PTCL got privatized, just 19% of the customers were satisfied with the performance of PTCL after privatization. Last but not the least, huge ratio of customers (51%) feel that changing ownership from government to private hands was not a good idea to increase profits of this telecom giant, rather government itself could have done better in this regard, whereas just 25% customers were of the view that privatization is a good recipe to improve a performance of a public organization, rest 24% respondents were neutral.

5. Conclusion

This study aims at evaluating the decision to privatize one of Pakistan's biggest state owned enterprise using a triangular approach and also attempted to discover this different approach to management of public sector from a global perspective. This chapter concludes the entire study, and summarizes the findings obtained in light of data collected and literature.

Privatization of PTCL also seems to be the part of CSP when one entity is performing so well under the ownership of government, then what was the need to privatize a crucial asset of the country? There must be some foreign interest behind this, or irrational vision of the government, otherwise when one analyzes the outcome of privatization, from each angle i.e. financial performance, customer feedback, and employees, and then there comes a total failure of privatization policy implementation even after 8 years of privatization.

Worst side of privatization is that not even NPM claims were achieved but also its appalling impacts in the form of malpractices in case of merit exploitation, employees job insecurity, unscreened layoffs and users (customers) lack of relief are visible in result of privatization.

To conclude, policy decision should have been made in a way that could have accentuated the betterment of the public rather than a few corporate giants. Governments should try to ensure provision of public services at affordable rates by removing the malpractices associated with it rather than getting rid of the entity. Last but not the least, public sector values and objectives are totally different from private sector entities, as public sector objective is to equally provide services to entire public without any discrimination whereas privatization objective is profit maximization, so to impose private sector practices to public sector makes no logic.

6. Recommendations

On the basis of the findings of the study, the researchers present the following recommendations that should be kept in view while considering privatization a solution to the inefficiency of public organizations:

- Instead of taking 'privatization' as the sole solution of the problem, governments should believe on their own skills and should realize that they can control the issues more brilliantly than any third person as they know more about their problems
- Governments should penetrate the power of institutions to grass-root level in order to improve the efficiency of an organization instead of taking the whole power in to their own hands that is how malpractices or inefficiencies of public sector can be minimized.
- Instead of straight away privatizing or outsourcing the strategic assets, governments should first try to remove or minimize negativities associated with it.

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