Global Scientific JOURNALS

GSJ: Volume 8, Issue 2, February 2020, Online: ISSN 2320-9186
www.globalscientificjournal.com

Financial and Operating Performance a comparison between Public and Privatized Banks in Pakistan: Paired Sample Mean Comparison Test

Saira batool1,Ali Ijaz2,Waqar ali3,Fouzia4,Muhammad Abubakar5,Muhammad Zeshan6,Waqas Ahmad7

1MBA, Institute of Management Sciences,
Bahauddin Zakariya University, Multan, Pakistan
Email: sairabatool09@hotmail.com

2PhD. Scholar, Department of management science,
The Islamia University Bhawalpur, Pakistan.
Email: aliijaz0092@gmail.com

3Officer state bank of Pakistan
Email:waqaralimohammad@gmail.com

4M.Phil. Scholar, Commerce Department,
Bahauddin Zakariya University, Multan,
Pakistan
Email: fouziasial@gmail.com

5M.Phil. Scholar, Commerce Department,
Bahauddin Zakariya University, Multan, Pakistan

6M.Phil. Scholar, Hailey College of Commerce,
University of the Punjab, Lahore, Pakistan
Email:zeshanbhatti21@gmail.com

7M.Phil. Scholar, Commerce Department,
Bahauddin Zakariya University, Multan, Pakistan
Email: waqasbzu67@gmail.com

Purpose —the basic purpose of this study is to find out the impact of privatization on financial and operating performance of banking sector in overall Pakistan for the period of 10 years from 2005-2014.

Design/ Methodology/ Approach —the financial and operating performance of banking sector before and after privatization is measure by six variables which are profitability, operating efficiency, solvency, leverage, dividend payout and employment level. The data was collected from "Annual Report of the selected banks form 2005-2014 available online on the respective website. Ratio Analysis and Paired Sample Mean Comparison Test is used for the prediction of the desired results. For the ratio analysis appropriate proxies are used and calculated with the help of MS Excel. The nature of dataset was long panel while the targeted population was 8 banks which include four public sector banks and four private sector banks. The researcher used the whole targeted population as its sample size in the study due to availability of all financial data for the period 2005-2014.

Findings —the findings of the study exposed that the profitability, operating efficiency, dividend payout, and employment has significantly increased in privatized banks after the implication of privatization. On the other hand the liquidity is decreased significantly after privatization in privatized banks but the solvency of the privatized banks has decreased insignificantly according to the results of the current study.

Limitations, Delimitation and Implications of Study – The Research findings are applicable and limited to banking sector of Pakistan and only simple mean comparison t-test is applied for the prediction of results. Only banking sector data is used to check the effects and only used single proxies for each variables.

Key words—privatization, profitability, operating efficiency, liquidity, solvency, dividend payout, employment

1.1 Introduction

Privatization is the practice of selling of State Owned Enterprises (SOEs) to private owners(Megginson & Netter, 2001a). Megginson and Netter (2001b) also defined privatization as "the deliberate sale by a government of State-Owned Enterprises (SOEs) or assets to private economic agents". Moreover, privatization seems like changes in control over public property with new innovative techniques (Megginson, 2000). Such type of selling of State Owned Enterprises may be done by competitive bidding, issuing shares with and without handing over of management. Privatization is made to promote efficiency or to accomplish predetermined objectives. Those who give arguments in favor of privatization consider it one of the most key economic events of the era, while those who oppose it are equally think that such practice lurk the basics of the present welfare state, if not because of democracy itself.

Later 1980s it has been presented as an economic tool in most of the states. It is experienced that private sector play vital role in the progress and development as compared to SOEs. Britain's prior conservative government under Margaret

Thatcher, who took charge in 1979, is commonly recognized as the ground-breaking and legitimizing privatization as an office state policy (Aman, 2009).

Two substitute choices normally stated are reorganization with a grander bottom-line concentration for the SOE and the handover of ownership and control from the public to the private sector, a process known as privatization. In the earlier choice managers can be provided better and elastic incentive by making decentralization decision that could upsurge production efficiency. So privatization has become so critical for maintainable national development (Aman, 2009).

Meanwhile in 1988 over 70 countries have applied direct sale of assets as a technique to take away the procession of state-owned firms. Such sales have mounted over $175 billion over 800 individual dealings. The deprived governments can get much cash according to its need, and also can get foreign technology and expertise by such direct sale of SOEs to both foreign investors or to corporations. Main cause behind the support of privatization is to expand the output of industrial and financial sector. In addition to increase state revenue, elevation of economic efficiency, curtail government interference in the economy through private-ownership, and provide the opportunity to host competition, grow the nation's financial markets, lead to introduce advance technology and improve productivity of units. The comprehensive records on 79 privatized companies of 21 countries throughout the period of 1980 to 1992 as portrayed given in the table (1.1). It demonstrations solid justification of performance of enterprises before and after privatization (Boubakri & Cosset, 1998).

Table 1.1: Performance of Newly Privatized Companies

Variables Measured	No. of observations	Mean Value before Privatization	Mean Value after Privatization	Mean change due to Privatization	% of Firms with Performance Improvement
PROFITABILITY Return on Sales	78	4.9%[c]	11.0%	6.05%[a]	62.8%
EFFICIENCY Real Sales per Employee	56	0.922	1.17	24.79%[a]	80.4%
INVESTMENT Capital Expend. + Sales	48	10.52%	23.75	13.22%[a]	62.5%
OUTPUT Real Sales (Adj. by CPI)	78	0.969	1.22	25.30%[a]	75.6%
TOTAL EMPLOYMENT	57	10672	10811	139	57.8%
LEVERAGE Debt/Total Assets	65	54.95%	49.86%	-2.48%[b]	63.1%
DIVIDENDS Dividends/Sales	67	2.84%	5.28%	-2.44%[a]	76.1%

a Indicates significance at the 1% level; b Indicates significance at the 5% level; c Indicates significance at the 10% level
Source: Narjess Boubakri and Jean-Claude Cosset, (1998)

The above table undoubtedly shows the comparative results of enterprises before and after privatization which powerfully rationalize privatization. Transfer of ownership from the public to private sector is the fruit of struggles made for privatization in both developed and developing economies which consequently generate the agency problems of managerial perquisite consumption Gedajlovic and Shapiro (1998) and entrenchment (Walsh & Seward, 1990).

1.2 Privatization in Pakistan

In the course of Bhutto regime in 70's social democracy model forced Bhutto to follow the strategy of nationalization; saying that the profit earning private sector organizations can transform Pakistani economy in a good condition. The circumstances were made worse by announcing some private sector business areas out of bound from private sector. To overcome these crises the Privatization Commission was made on January 22, 1991 by the Prime Minister at that time Nawaz Sharif to upkeep unrestricted market and private proprietorship (Kausar, Gul, Khan, & Iqbal, 2014). This commission was formed to consolidate the process of selling some of the government share in PIA, it was the first time in Pakistan that government share in SOEs was first time publically offered for sale. Moreover, initially the privatization was just concerned for industrial sector but later on in 1993 it was also applied on financial engineering, automobile, and cement, ghee, energy, fertilizer and chemical sectors. During 1991 to 1994 about 66 privatization transaction were took place, that were increased by the end of 1997 to 92, by the end of 2000 this figure was reached to 106 and in 2005 this figure was reached to 129 and this figure crossed 172 till the end of December 2014 at gross sale price of Rs. 648.954 billion.

After 1980's as nationalization policy was not providing results as were anticipated and moreover, there was an international wave of privatization across the world. This results in ineffectiveness and loss of managerial control. As a result this practice had started showing devastating impacts. A harmony was developed that the government is not the superlative businessperson for such industries because at that time most of the SOEs had started presenting adverse features like management unskillfulness, overstaffing, over-branching, over-purchasing, over-investment, poor level of service, decline in quality of goods, bribery in purchases, hiring practices and privileges-abuse, unsuitable investments and large debt liability and fiscal losses (Kouser, Azid, & Ali, 2012).

Throughout the Zia regime, preliminary steps were taken by restoring the proprietorship of Nowshera Engineering and Hilal Ghee Mills in the last decades of 1970s. Furthermore the management of the Ittefaq Foundry was handed over to the Sharif family. Most of the researchers ponder that the practice of privatization was encouraged in 1991 through Privatization Commission of Pakistan (Kouser et al., 2012). The stride of banking development in Pakistan has possibly very few counterparts in the world. Starting from 1947, the country today owns a full variety of banking and financial institutions to handle the diverse needs of growing economy. (Meenai, 2004)

1.3Short History of Four Privatized Banks

1.3.1.United Bank Limited (UBL) HISTORY

In the 1990's the government of Pakistan decided to change the face of banking by creating a blueprint to privatize UBL. At this point, financial experts were called on board to set the bank back on course, and with implementation of relevant changes, the government privatized the bank in the year 2002 – Best way and Al Ayaan collaborated, forming the cornerstone for the UBL of tomorrow. In June 2014 19.6% share were sold to strategic investors.

Table 1.4: Dynamics of the Banking Sector

	Number			**Amount (Rs. in billions)**			**Share (%)**		
Assets	**1990**	**2002**	**2014**	**1990**	**2002**	**2014**	**1990**	**2002**	**2014**
Public	7	5	5	392.3	877.6	3226.1	92.2	41.3	15.1
Private	-	16	22	-	968.3	17712.2	-	45.5	82.8
Foreign	17	17	6	33.3	280.9	445.5	7.8	13.2	2.1
Total	**24**	**38**	**33**	**425.6**	**2126.8**	**21383.8**	**100**	**100**	**100**
Deposit									
Public	7	5	5	329.7	721.9	1468.3	93	43.5	17.5
Private	-	16	22	-	754.2	6829.2	-	45.4	81.3
Foreign	17	17	6	24.9	184.1	105.9	7	11.1	1.2
Total	**24**	**38**	**33**	**354.6**	**1660.2**	**8403.4**	**100**	**100**	**100**

Source: State Bank of Pakistan

1.3.2.Habib Bank Limited (HBL)

HBL established operations in Pakistan in 1947 and moved its head office to Karachi. The first international branch was established in Colombo, Sri Lanka in 1951 and Habib Bank Plaza was built in 1972 to commemorate the bank's 25th Anniversary.

GSJ: Volume 8, Issue 2, February 2020
ISSN 2320-9186

With a domestic market share of over 40%, HBL was nationalized in 1974 and it continued to dominate the commercial banking sector with a major market share in inward foreign remittances (55%) and loans to small industries, traders and farmers. International operations were expanded to include the USA, Singapore, Oman, Belgium, Seychelles, Maldives and the Netherlands. On December 29, 2003 Pakistan's Privatization Commission announced that the Government of Pakistan had formally granted the Aga Khan Fund for Economic Development (AKFED) rights to 51% of the shareholding in HBL, against an investment of PKR 22.409 billion (USD 389 million). On February 26, 2004, management control was handed over to AKFED. The Board of Directors was reconstituted to have four AKFED nominees, including the Chairman and the President/CEO and three Government of Pakistan nominees.

1.3.3. Muslim Commercial Bank (MCB)

This was the first bank to be privatized in 1991 and the bank was purchased by a consortium of Pakistani corporate groups led by Nishat Group. As of June 2008, the Nishat Group owns a majority stake in the bank. The president of the bank is Imran Maqbool.

1.3.4 .Allied Bank Limited (ABL)

In November/ December 1990, the Government announced its commitments to the rapid privatization of the Banking sector. Allied Bank's management under the leadership of Mr. Khalid Latif decided to react positively to this challenge. As a result of privatization in September 1991, Allied Bank entered in a new phase of its history, as the world's first bank to be owned and managed by its employees.

Allied Bank's capital and reserves were Rs.1.525 (Billion) and assets amounted to Rs. 87.536 (Billion) and deposits were Rs. 76.038(Billion). The Bank enjoyed an enviable position in the financial sector of Pakistan and was recognized as one of the best amongst the major banks of the country. In August 2004 as a result of capital reconstruction, the Bank's ownership was transferred to a consortium comprising Ibrahim Leasing Limited and Ibrahim Group.

In May 2005 Ibrahim Leasing Limited was amalgamated by transfer to and vested in with Allied Bank Limited. ILL shareholders were issued ABL shares in lieu of the ILL shares held by them. On December 2014, 131,275,073 share for a price of 14.440 million rupees were sold to private investors.

1.4Privatization Changes Banking Sector of Pakistan

Policy makers know very well that socio-economic development of a country lies in the hand of the institutions like banks. Every economy wishes to generate surplus, and this surplus have need of well-organized and effective means of production with doable management. And to achieve this goal differentiate banking sector is compulsory. Some solid validations of pre and post banking sector privatization is specified as follows (see Table 1.5 and 1.6)

Table 1.5: Pre-Privatization Structure of the Banking Sector

Banks	**No**	**Assets**		**Deposit**	
		Amount (Rs Billions)	Share %	Amount (Rs. Billions)	Share %
State owned	7	392.3	92.2	329.7	93
Private	-	-	-	-	-
Foreign	17	33.4	7.8	24.9	7
Total	**24**	**425.6**	**100**	**354.6**	**100**

Source: Financial Sector Assessment 1990-2000, State Bank of Pakistan

Table 1.6: Post-Privatization Structure of the Banking Sector

Banks	**No**	**Assets**		**Deposit**	
		Amount (Rs Billions)	Share %	Amount (Rs. Billions)	Share %
State owned[1]	5	3226.1	15.08	1468.3	17.4
Private	22	17712.2	82.82	6829.2	80.9
Foreign	6	445.5	2.1	105.9	1.7
Total	**33**	**21383.8**	**100**	**8437.9**	**100**

[1] Four small new banks were set up in the public sector from 1990s to 2014. These included the First Women Bank, set up to provide credit to women entrepreneurs; and two provincial banks; the Bank of Punjab, the Bank of Khyber and Sindh Bank Limited

Source: Banking Supervision Department, State Bank of Pakistan (2014)

The above tables of before and after privatization shows progressive development in assets and deposits. The public sector was driving the economy before the privatization but its performance was not long lasting and meting standards. To reach viable economic development the government of Pakistan go for the process of privatization. Table 1.6 of post privatization demonstrations that the entry of banks into private sector increases the share of assets and deposits. This progressive development is derived due to strong competition, new financial products and services with up-to-date technology

1.5 Objective of the Study

The main objective of the research is to investigate the effects of privatization on the financial and operating performance of the banking sector of Pakistan. The research will have the following specific objectives:

1. To determine how privatization has affected profitability in the banking sector in Pakistan.
2. To determine the effect of privatization on the liquidity of the banking sector in Pakistan.
3. To examine the effect of privatization on financial efficiency in the banking sector in Pakistan.
4. To examine the effect of privatization on solvency in the banking sector in Pakistan.
5. To examine the effect of privatization on the dividend payout ratio in the banking sector in Pakistan

2. Literature review

2.1 Privatization and Financial Sector

Barth, Caprio Jr, and Levine (2001) conducted the research on banks according to his finding in less developed countries insolvency is very costly and having impact on government inefficiency, therefore, to overcome the government inefficiency privatization policy should be adopted. (Megginson & Netter, 2001b) concluded that, after the privatization the financial and operational performance of the companies sustainably increased. Clarke and Cull (1998) and Megginson, Nash, Netter, and Poulsen (2004) apply the same methodology and identifies that economic orientation having positive impact on the decision made by the government for privatization.

A cross country research is conducted by Clarke, Cull, and Shirley (2003) results reveals that privatized banks having greater performance then the government owned. However, the privatized banks where the government having little interest also shows negative relationship between performance and privatization. When the privatization is done through the public share offering the government owned organization producing less gain as compare to the sale is made to investors by without intermediaries.

Boubakri and Cosset (2002) investigate before and after privatization impact on organizational performance sample is collected from16 African organizations from 1989-1996. Demonstrated that there is insignificant relationship between the privatization and efficiency, profitability and leverage, hence the capital spending increased.

Megginson and Sutter (2006) compared the pre-verses-post impact of privatization on firms performance in less develop countries. According to that financial and operating performance of the different companies can be increased due to privatization. However research stated that after the privatization company's performance can be enhance, restructuring the all the operation of the companies after the privatization, shareholder protection can be increased. Clarke, Cull, and Shirley (2005) studied the privatization of banking sector in different countries and investigated that after privatization of banking sector in Argentina profitability, efficiency and return on asset has increased along with declined cost of assets and production cost. They also taken into consideration the case study of Brazil Economy and their result also exhibited that due to privatization of banks return on equity, return on asset and total factor productivity has increased. A significant improvement in profitability and return on asset is investigated in another case study of Eastern Europe (Bulgaria, Czech Republic, Carotia, Hungary, Plan and Romania). In Mexico denationalization of banks not only enhanced cost/assets but also brought positive change in non-performing loans. They also explored the performance of privatization of banks in Pakistan and their results exposed that profitability of banks improved. As identified by Megginson (2005) privatization leads to increase the performance. Privatization encourage the reformation of unprofitably firms and assist the government to providing subsidies to loss-making state owned enterprises. Many state-owned banks reveal deprived financial performance because the banks used to give politically motivated loans (Caprio & Klingebiel, 1996; Verbrugge, Megginson, & Owens, 1999). Privatization should be likely to introduce in countries where the banking sector have low quality of performance if government want to improve financial performance.

3. Methdology

3.1 Nature of Data and Source

The researcher used panel and longitudinal dataset to analyze the effect of privatization on the financial and operating performance of banking sector. The organization of panel dataset comprises cross-section (banks) as well as time period aspect in order to attain significant results. The nature of data is long panel because it contains a large number of time periods (10 years) so the researcher have 8 banks year panel to investigate the results.

The dataset was created with the help of secondary source, Annual Reports of the banks from a time period of 2005-2014 accessed from the official websites of each bank. The researcher selected the financial sector (banks) due to fact that this sector is more affected by the efforts made by the government to privatize the public sector banks which increase the validity and generalizability of estimation results.

3.2 Sample Size and Sampling Technique

The study aims at comparing the financial performance, including efficiency, profitability, solvency and liquidity of privatized and public sector banks over a period from 2005-2014 by using the sample size of four privatized banks and four public banks. The four public sector banks named as; National Bank of Pakistan, The Bank of Punjab, The Bank of Khyber, First Women Bank, and the four private sector banks includes United Bank Limited, MCB, Allied Bank Limited and Habib Bank Limited.

The research used simple random sampling technique for the selection of sample. The reason behind using this technique is nature of data as it is divided into two groups and each group have four firms (banks). All these banks have been selected due to availability of complete financial data for the period of 10 years.

Data was collected from the annual audited financial reports of the selected banks. Only those banks will be included in the current research whose financial statement provides complete data for the period of 10 years (2005-2014).

3.3 data analysis technique

The study will compare the mean differences of privatized banks with public sector banks. Differences in financial and operating performance of the two sets of banks is analyzed by comparing the mean differences between public and private sector banks and through Paired Sample Mean Comparison Test. This methodology is adopted from (Kader & Asarpota, 2007).

3.3.1 Hypotheses for Profitability

H1: The profitability of privatized banks is significantly different than public sector bank

3.3.2 Hypotheses for Operating Efficiency

H2: The efficiency of privatized banks is significantly different than public sector banks.

3.3.3 Hypotheses for Solvency

H3: The solvency of privatized banks is significantly different than public sector banks.

3.3.4 Hypotheses for Liquidity

H4: The liquidity of privatized banks is significantly different than public sector banks.

3.3.5 Hypotheses for Dividend Payout

H6: The Dividend Payout of privatized banks is significantly different that public sector banks.

3.3.6 Hypotheses for Employment Level

H5: Privatization has decreased the level of employment in the private banks in Pakistan

4. Results Discussion

Table 4.1: Paired Sample Mean Comparison Test Results

Variables	N	Mean		Standard Deviation			
		Public Banks	Private Banks	Public Banks	Private Banks	T-Stat	P-Value
Profitability	40	.1313283	.3235457	.3201113	.226056	3.10*	0.0027
Operating Efficiency	40	524.3391	1060.076	1485.568	511.2531	2.16*	0.036
Solvency	40	3.661007	.9024837	15.1234	.0247158	1.15	0.25
Liquidity	40	25.11228	13.06053	25.04954	8.142009	2.89*	0.005
Dividend	40	-.0000825	.3700706	.4346544	.1808334	4.74*	0.000028

Employment	**40**	**5194.6**	**12907.6**	**6118.183**	**1719.444**	**7.67***	**0.0000**

***significant at 5%**

4.1. Profitability

Almost all the researchers stated that profitability is positively correlated with privatization. ROS is used as proxy of profitability by the researcher. Table 4.1 indicates that the profitability of privatized banks is higher than that of public sector banks as the mean of privatized banks (0.3235457) with the standard deviation of 0.226056 is significantly greater than the mean of public banks (0.1313283) with the standard deviation of 0.3201113 and the results were significant at P-Value 0.0027. It clearly states that after the implication of privatization in banking sector the profitability of the banks privatized is significantly increased. These results are consistent with the earlier researches conducted by (Dorra & Sonia, 2012; Kouser et al., 2012).

4.2.Operating Efficiency

Operating efficiency in normally judged by two variables: sales efficiency (SALEFF) and income efficiency (INEFF). The researcher used Net Income Efficiency as it predicts better results.

In banking sector the operating efficiency of privatized banks is increased due to privatization. As the results in the Table 4.1 shows that privatized banks have higher mean value 1060.076 with a standard deviation of 511.25 than the mean of public banks 524.3391 with a significant p-value of 0.036. These results indicates that the operating efficiency of banks after privatization has significantly changed than public banks. These results are also in line with the previous researches such as (Omran, 2004; Sathye, 2005; Vining & Boardman, 1992).

4.3 Solvency

Solvency variations also look to be stubborn across many samples. The empirical results shows a decrease in solvency in overall results but this is insignificant although the mean of privatized banks has decreased in real. The mean value of privatized banks is **.**9024837 which is less than the mean of public sector banks 3.661007 with 1.15 T-Stat value and 0.89 p-values which make it insignificant. These results matched with the findings of D'souza and Megginson (1999) and (Omran, 2004) as he also predicted that after privatization the solvency position of the firms has declined. As Dorra and Sonia (2012) concluded that liquidity and solvency risk increases due to withdrawal of government's capital from privatized banks and concluded that privatization failed to manage solvency and liquidity risks.

4.4 Liquidity

The liquidity is calculated by the ratio of current assets to current liability. The results show that the mean values of liquidity of privatized banks is less than the public sector banks. Privatized banks have a mean value of 13.06053 and public sector banks has mean value of 25.11228 with a t-stat of 2.89 and p-value of 0.005 which clearly state that the privatized banks have low level of liquidity as compare to public sector banks. These findings are also consistent with the existing researches conducted by (Dorra & Sonia, 2012; Harper, 2002).

4.5 Dividend

It is observed that whether dividend payouts, measured as total dividend payments divided by net income (PAYOUT) increase following privatization. This very strong evidence of dividend increases after privatization is also found in our sub samples. For the hypothesis of changes in dividend payments, the overall analysis shows an improvement in dividend payout. Dividend payout in mean of privatized banks **.**3700706 is higher than dividend payout of public banks -.0000825 and t-stat 4.74 with p-value of 0.000028. This shows an increasing trend in post privatization results. The results are consistent with the earlier researches which also states that after privatization dividend payment of privatized banks is higher than the public sector banks (Kausar et al., 2014; Porta & Lopez-de-Silane, 1999).

4.6 Employment Level

The employment is measured by the number of employees each banks and then calculating their means. The above Table 4.1 shows the empirical results about privatization which states that mean value of privatized banks 12907.6 is higher than the mean value of public sector banks 5194.6 with t-stat of 7.67 and p-value of 0.000. This shows that after privatization the employment level in the privatized banks is increased as compared to public sector banks. The results are similar to the previous studies that there is increase in privatization but finding are not very much significant (Barnett, 2000; Davis, Richardson, Ossowski, & Barnett, 2000).

5. Conclusion, Recommendations and Policy Implications

Based on the results discussed above it is concluded that privatization has a positive influence on the profitability and operating efficiency of those banks which were previously in public sector. The profitability and efficiency of such privatized banks are considerably improved than those banks bank which are still in public sector. Moreover, the solvency and liquidity of privatized banks are significantly lesser than public sector banks. This can be linked with more substantial lending strategies implemented by privatized banks are compare to public sector banks. To upsurge their revenues and to influence their profitability privatized banks are lending considerably more, as measured by advances to deposits ratio, than public sector banks while keeping a lower equity to debt ratio, acceptable by banking regulations. Furthermore there is an increase in the dividend payout ratio of banks after privatization.

The private banks give more dividend as compared to public banks. As well as the results also suggest that there is also an increase in the employment level after privatization of the banks privatized which were previously in public sector. Although the previous research show that privatization has decreased due to privatization but this study reveal that privatization leads to increase over a period of time. As recommended by earlier studies it is conclude that privatized banks are capable to manage these risks more effectively as compare to public sector banks. Therefore it is concluded that privatization has significant impact on the overall financial and operating performance of Pakistani banking industry.

5.1 Recommendations and Policy Implications

In context with the findings of the current study it is recommend that privatization yield significant growth in performance and this is empirically concluded by overall country performance, sector performance and majority of the individual firm performance.

So it can be recommended that government should emphases on good governance, policy making, provide helpful environment that offer incentives for the private sector to invest in providing goods and services efficiently and effectively. The major obligation of the government is to work for the welfare of the society and country not for the business.

Concurrently, to create positive environment and to improve the political situation of the country that will be finally productive for privatization, the government requires more new investment inoculations, introduction of improved management, introduction of new and improving the technology, increase in competitiveness, and thus leaving more funds with the company. All these measures mechanically improve the employment opportunity in the country. Simultaneously government should develop dynamic policies to rise the confidence of the foreign as well as local investors in Pakistan. It can only be happened when government show consistency and commitment in following its policies and bring reforms and provide productive environment for the private investor in Pakistan.

The most important thing for the effective privatization is that the country should be liberalized and the government should eradicate unnecessary limitations and extensive certification processes form the industrial enterprises. Due to this privatization should subsequently be part of a process to support private sector through transferring it assets as well as enlightening and creating supervisory agreement and improved groundwork for their operation. Because privatization cannot produce desired results to improve operational efficiency and effectiveness if the government handovers the ownership to the private sector but to keep it controlled by immense.

Therefore, the transfer of SOEs should be extend over a period of time. There should be a specific pre-defined procedure for privatization. To privatize the SOEs, normally the government should offered for sale the loss making units first and then the less profitable and finally the more profitable but it is also possible that a combination of loss making and profitable units is offered for sale collectively as a cluster. In conclusion, it must be guaranteed by the government that the company which is buying the industrial as well as consumer unit must be serious to run that organization instead of selling its assets and using the factory for some other businesses as this has happened in majority closed units in Pakistan and this, therefore cause a severe loss of production, employment and taxes to the national economy.

References

Aman, Q. (2009). *Privatization and Economic Development: A Case Study of Financial Sector of Pakistan.* (Ph.D), Qurtuba University of Science and Infromation Technology, NWFP Pakistan.

Barnett, S. A. (2000). Evidence on the fiscal and macroeconomic impact of privatization.

Barth, J. R., Caprio Jr, G., & Levine, R. (2001). Banking systems around the globe: Do regulation and ownership affect performance and stability? *Prudential supervision: What works and what doesn't* (pp. 31-96): University of Chicago Press.

Boubakri, N., & Cosset, J.-C. (1998). *Privatization in Developing Countries: An Analysis of the Performance of Newly Privatized Firms*. Retrieved from

Boubakri, N., & Cosset, J.-C. (2002). Does privatisation meet the expectations in developing countries? A survey and some evidence from Africa. *Journal of African Economies, 11*(suppl 1), 111-140.

Caprio, G., & Klingebiel, D. (1996). Bank insolvencies: cross-country experience. *World Bank policy research working paper*(1620).

Clarke, G. R. G., & Cull, R. (1998). *The Political Economy of Privatization: An Empirical Analysis of Bank Privatization in Argentina*: World Bank Publications.

Clarke, G. R. G., Cull, R., & Shirley, M. M. (2003). *Empirical studies of bank privatization: an overview.* Paper presented at the World Bank Conference on Bank Privatization in Low and Middle-Income Countries, November.

Clarke, G. R. G., Cull, R., & Shirley, M. M. (2005). Bank privatization in developing countries: A summary of lessons and findings. *Journal of Banking & Finance, 29*(8), 1905-1930.

D'souza, J., & Megginson, W. L. (1999). The financial and operating performance of privatized firms during the 1990s. *The Journal of Finance, 54*(4), 1397-1438.

Davis, J. M., Richardson, T. J., Ossowski, R., & Barnett, S. (2000). *Fiscal and macroeconomic impact of privatization*. Retrieved from

Dorra, Z., & Sonia, Z. G. (2012). What is the impact of privatization on bank risk? The Case of Tunisian banks. *E3 Journal of Business Management and Economics., 3*(9), 318-325.

Gedajlovic, E. R., & Shapiro, D. M. (1998). Management and Ownership Effects: Evidence from Five Countries. *Strategic Management Journal, 19*(6), 533-553.

Harper, J. T. (2002). The Performance of Privatized Firms in the Czech Republic. *Journal of Banking & Finance, 26*(4), 621-649.

Kader, J., & Asarpota, K. (2007). *A., and Al-Maghaireh, A.(2007). Comparative Financial Performance of Islamic Banks vis-à-vis conventional Banks in the UAE.* Paper presented at the Proceeding of the Annual Student Research Symposium and the Chancellor’s Undergraduate Research Award, Al-Ain University, United Arab Emirates.

Kausar, A., Gul, F., Khan, R. M., & Iqbal, M. (2014). The Impact of Privatization on the Financial Performance of Banking Industry: A Comparison of Privatized and Public Banks in Pakistan. *First International Conference on Emerging Trends in Engineering, Management and Sciences*.

Kouser, R., Azid, T., & Ali, K. (2012). Financial and Operating Performance of Privatized Firms: A Case Study of Pakistan. *International Research Journal of Finance and Economics*(87).

Meenai, S. A. (2004). *Money and banking in Pakistan*: Oxford University Press, USA.

Megginson, W. L. (2000). Privatization. *Foreign Polich, 118*, 14-27.

Megginson, W. L. (2005). The Economics of Bank Privatization. *Journal of Banking & Finance, 29*(8), 1931-1980.

Megginson, W. L., Nash, R. C., Netter, J. M., & Poulsen, A. B. (2004). The Choice of Private Versus Public Capital Markets: Evidence from Privatizations. *The Journal of Finance, 59*(6), 2835-2870.

Megginson, W. L., & Netter, J. M. (2001a). From state to market: A survey of empirical studies on privatization. *Journal of economic literature, 39*(2), 321-389.

Megginson, W. L., & Netter, J. M. (2001b). From State to Market: A Survey of Empirical Studies on Privatization. *Journal of economic literature, 39*, 321-389.

Megginson, W. L., & Sutter, N. L. (2006). Privatisation in Developing Dountries. *Corporate Governance: An International Review, 14*(4), 234-265.

Omran, M. (2004). The performance of state-owned enterprises and newly privatized firms: does privatization really matter? *World Development, 32*(6), 1019-1041.

Porta, R. L., & Lopez-de-Silane, F. (1999). *The Benefits of Privatization: Evidence from Mexico*. Retrieved from

Sathye, M. (2005). Privatization, Performance, and Efficiency: A study of Indian Banks. *Vikalpa, 30*(1), 7-16.

Verbrugge, J., Megginson, W. L., & Owens, W. L. (1999). *State ownership and the financial performance of privatized banks: An empirical analysis.* Paper presented at the Proceedings of a policy research workshop at the World Bank.

Vining, A. R., & Boardman, A. E. (1992). Ownership versus Competition: Efficiency in Public Enterprise. *Public choice, 73*(2), 205-239.

Walsh, J. P., & Seward, J. K. (1990). On the Efficiency of Internal and External Corporate Control Mechanisms. *Academy of management review, 15*(3), 421-458.