BUSINESS AND ENVIRONMENT
THE NEED FOR AND NATURE OF BUSINESS ACITIVITY

PRIVATISATION

Privatization is the transfer of public sector resources to the private sector. It is the process of selling the state owned and controlled business organizations to the private sector.

FORMS OF PRIVATISATION

1. The sale of nationalized industries completely.
2. The sale of part of the nationalize industry (partial privatization)
3. De-regulations: It involves lifting restrictions and lowering down barrier to entry in a particular market.
4. Contracting out:
5. Sale of previously government owned land and property.

ARGOMENTS FOR PRIVATISATION

1. Business become more efficient due to the profit motive of the private sector than they were when supported and subsidized by state.
2. Due to bureaucracy state owned businesses are faced by slow decision – making.
3. Market discipline would lead to better decision making especially in relation to investment.
4. Increase motivation of managers and workers as the responsibility of success is fully in their hand. Therefore, they feel greater involvement in its running. There is a greater sense of empowerment.
5. Market forces are allowed to operate. Talking businesses would have to change or die while successful businesses expand unconstrained by the government limits on growth.
6. Greater competition due tot the removal of entry barriers increases efficiency too.
7. Also privatized businesses are more responsiveness to the needs of customers. This means increased choice due to greater variety.
8. There is always temptation for governments to run state industry for political reasons or as a means of influencing national economy e.g. keeping electricity prices artificially low. Decisions not taken for commercial reasons.
9. Management will be freed from political interference.
10. Privatization races finance for the government which can be spent on other state projects. It enables reduction in public – sector borrowing.
11. Regulatory bodies can be set up by the government to ensure free competition and no consumer exploitation.
12. Private businesses have access to private capital markets and this leads to increased investment in these industries.
13. Employee share schemes (promoted as part of privatization) will give workers a greater slake in the industry.
14. Privatisation should improve accountability. The losses made by nationalized industries are put down saying that they are providing a service to the public. In the private sector they would be accountable to the shareholders and

consumer's. Shareholders would expect a return on their investment and consumers would expect a quality service at a fair price.

ARGUMENTS AGAINST PRIVATISATION

1. Certain essential industries should be under government control and decisions related to them be taken by state. These decisions should be based on the needs of society. This may involve keeping open business activities that private companies would consider unprofitable e.g. gas supply in rural areas.
2. By competing with privately run business it will be much more difficult to achieve a coherent and co-ordinated policy for the benefit of the whole country e.g. railway system, electricity grid.
3. Through state ownership, an industry can be made accountable to the country. This is by means of a responsible minister and direct accountability to parliament.
4. Many strategic industries could be operated as 'private monopolies' if privatized and they could exploit consumers with high prices.
5. Breaking up nationalized industries, perhaps into several competing units, will reduce the opportunities for cost saving through economies of scale.
6. Privatisation has been expensive. In particular, the amount of money spent advertising each sale is critised excause the money spent is at the taxpayers expense.
7. Nationalised industries at times have been sold off too cheaply because of the share issue being over – subscribed. This shows that more people want to buy shares then there are available. Therefore, shares when begin to be sold, their prices rises sharply.
8. Natural monopolies have been sold off such as railway hire to a particular town. Some argue that they should remain state – controlled because of duplication resources.
9. Share ownership arguably has not increased. Many who bought shares sold them very quickly afterwards. In addition, a significant numbers of new share owners only own very small shareholdings in one company.
10. Many of the nationalized industries are important for the development of nation. To put them in private hands might jeopardize their existence. If business conditions change for the worse a private companies may not guarantee supply.

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Q. Explain the impart of privatization on the business sector of your country. (15 – 20)

Ans. Privatisation is the transfer of public sector resources to the private sector. In my country, Pakistan, this important change began in the early 90s and continues to date. It has had several significant impact upon the business sector of this developing country.
Privatisation commission was set up on the 22nd of January 1991 to oversee the privatization process for over 100 organizations that range from banking sector industries to manufacturing to telecommunication is the impact that privatizations was supposed to make upon the business sector is given in the mission statement of PC:

> "Privatization is envisaged to foster competition, ensuring greater capital investment, competitiveness , and moderanisation, resulting in enhancement of employment and provision of improved quality of products and services to the consumers and reduction in the fiscal burden.

The first and foremost impact of privatization is the generation of income for the government from the receipts followed by selling of shares of the company. This has been at Rs. 424 billion ($7 billion) in the past sixteen years. This has been used to pay off debts. However had no major impact upon the reduction of debts since it forms a small percentage (97) of the total debt. This is because in the last 10 years only three major privatization have taken place that involved the transfer of management control a large power generation company (KAPCO) and two major banks, MCB and ABL. The other nearly 100 privatisation transactions have either kept management control with the government (e.g. PTCL) or were small units. In the meantime, additional debt countries to be incurred.

An important impact of privatization has been job losses. This is because state owned enterprises often have more employees than needed for efficient operation of the company. Many of the employees perform little or no work or have little productivity e.g. the decision to divest manufacturing and financial enterprises, Water and Power Development Authority (WAPDA) and Pakistan Telecommunications (PTCL) put the jobs of more than 500,000 workers on state. Also privatization usually follows restructing which means ways to make the organizational structure most efficient and productive. This causes delayering redundary of excess workers and increase in capital intensiveness to come at par with international organization e.g. resent restructuring of Habib Bank and United Bank resulted in 10000 job loss. Also in certain cases such as that of engineering industry workers have taken golden hands shakes / voluntary retirement. Such widescale unemployment increases burden upon the working population due to which there has been an increase of taxes. In the bright side, due to the expansion of industries there have been an

This economic reforms that state the policies of privatization liberalization and deregulation have caused the economy of Pakistan to register rapid growth averaging more than 7% during the last four years. Increased privatization has encouraged foreign investments as investors are more willing to invest in private companies because of less bureaucracy and quick results. This has resulted in a 10 fold increase in foreign direct investment (FDI) in 5 years from only $322 million in 2000-01 to $3.521 billion in 2005-2006. Economy regulated by independent institutions improves efficiency reduces waste, increases production and enhances quality while maintaining downward pressure on prices, thereby benefiting consumers, investors, tax payers and the government.

Pakistan has led to the upgrading of infrastructure and technology. It has improved business focus and customer service. In most cases it has led in an increase in the total assets owned by the business and thus an increase in the worth of the business. It has caused the development of a versatile and dynamic internal structure as well as training and development of motivated teams of employees i.e. increased decentralization. This has generally led to an increase in the profits of the organization. E.g. since the government decided to privatize Habib Bank in 1997 its profits increased a loss before tax of $50 million to a profit before tax of $82 million in 2002.

Privatization may also be followed by mergers and take-overs which on one hand can cause a business to diversify or offer a greater number of services while on the other hand may lead to the formation of monopolies or oligopolistic situations that exploit consumers.

Also due to the deregulation that privatization brings, there is increased competition due to which the organizations must improve themselves e.g. media. Before deregulation about 5 years back, Pakistan Television Network (PTV) was the only one that catered TV services in Pakistan. But now there are atleast a dozen channels such as GEO TV, AAJ, Rung etc. Such competition leads to innovation and variety and increasing consumer satisfaction and providing higher employment opportunities.

Concludingly, there should be continued privatization in Pakistan as most of the impacts upon a developing country are positive. Private companies are more efficient their public ones. The incentives all work towards having greater efficiency in the private sector. However, there is no denying that private managers may be corrupt. But the big difference lies in that the losses are boone by its private shareholders, rather than by taxpayers.