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RELATION BETWEEN OWNERSHIP AND PERFORMANCE IN MANUFACTURING SECTOR - A REVIEW OF LITERATURE BETWEEN GOVERNMENT OWNERSHIP V/S PRIVATE OWNERSHIP

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ABSTRACT

This paper examines and discuss the relationship between ownership and performance especially government sector and private sector. There are two main streams in the forms of economic activities, one if capitalism and another is socialism. Capitalism is more focused on the private ownership and predominantly based on performance while the socialism is the product of the negative side of capitalism which advocates equal distribution of resources and disregards the market system of the capitalism which advocates the demand and supply system with purchasing power. This paper focuses on research has been done worldwide on government owned manufacturing firms verses Privately owned firms which run solely on one assumption which is maximisation of profit. Most of the literature and analysis finds private sector more performance oriented and more efficient. This paper also gives the idea of data and methodology for next research paper on the same topic with analysis since this paper only discuss litrature review.

Keywords: state or private ownership, performance, regression, log

INTRODUCTION

Ownership and performance has long been discussed for the measurement of their performance. There are some factors which have helped different ownerships to evolve from the classical production system to the state of the art production system which leads to the more optimum utilisation of resources, more specialisation of labour and at the same time increasing productivity of labour. The increasing population, change in the technology, financial institutions are the most important factors among many.

Earlier the need of people were confined and limited by nature which is not today where we are seeing thousands of verities of goods being flooded from the foreign markets, this process demand more production in the short period of time with precision using limited resources and keeping lowest possible price to remain in competition. Which has resulted into industrial revolution with manufacturing of many new goods with new technology. The increasing amount of demand created a clusters of industries with clusters of financial companies and financial markets. Evolution of these institutions throttled the pace of production and sales, scale of production.

The trade in world grew rapidly, participants in the trade and manufacturing also grew swiftly. Increasing amount of stakeholders gave birth to many theories and new types of firm ownerships like Joint Stock Company and all type of limited companies, where different participants were working for their own benefits. The oldest and classical ownership model is Individual proprietorship which has a limited reach and power to satisfy consumer wants while there is a joint stock company which can have a global reach and global share in the consumer market. The limited role of state changed as a facilitator and regulator of the all economic activities but in some countries the role of state was to produce all possible goods for their citizens not depending on the market structure which led to another type of organisational ownership change. The world was divided into two types of economic system, one was capitalism where individuals were able to decide the distribution of resources and second socialism where government was to decide the distribution of resources.

There were three main economical questions for both organisational structures.

1) What to produce? 2) How to produce? 3) For whom to produce.

Bothe organisational structures adopted different methods for same goals. But after 1990 when Soviet Union collapsed, many nations among the world including India took U turn and adopted semi-capitalism only to become full capitalism economy

Most of the researcher have tries to measure the performance of these both ownerships which resulted in favour of privately owned institutions.

REVIEW OF LITERATURE

Performance of public sector enterprises

(Bavon, 1998) in his research studies the performance of the Ghanian public enterprises. The data of this research shows that the source of main employment from 1960s' to the 1980's was only the government public enterprises. During this period many commom prblems which most of the developing country faces in public enterprises were seen as exececssive dependancy on public sector for employment, wastage of pulbic money n terms of losses and underwritings, social security aspect of workers and less efficiency and low productivity, havey loans taken by public enterprises and the serviaility of that loan was alsoa big issue. This study took the sample data of 32 of Ghanian companies from year 1986 to 1995. The sample shows the data of both public and private firms. Analsysis of both the types of firms shows the consistancy in the growth but sales volume was higher of public enterprises till 1986 but after that private sector performed well enough to outclass public enterprises after 1994.

(Zhuang, 1999)(Shixun, n.d.) studies the performance and efficiency of the government wholsale firms in main land China and equates with the performace and efficinecy of the private firms involved in same industry. He says that many litrature have examin financial perormance of the industries and firms but the performace can be assessed by input output analysis with total factor productivity, technical and inovative efficinecy. This study devided analysis into three main aspect as production, distribution and wholsale. Author concludes that in distribution field SOEs records higher financial support and standing while in the production private sector is more efficient.

(Ramaswamy, 2001) studies the performance of Indian SOEs and private sector firms. he explains that there is a strong theritical consensus in the favour of private firms against government firms, he also gave some conclusive remarks by studies of Vining and Boardman (1992) who had examined 54 studies, out of them 32 studies showed that priavte sector performes well while 6 studies showed government sector performed well while other did not find any strong connection ownership and firm performance. His own research which took 3 years (1990-1992) samples of large government and private sector firms showed that state enterprises did not performed well and also explained that as market is becoming more open and prone to more copetition the performance gap between government firms and private firms is increasing.

(Sun, Tong, & Tong, 2002) explains the privatisation experience of China. He clarifies the reason why government ownerhsip affects negetively to the performance and efficiency? He explains the choice of government policy which is more tilted towards improving social and economical conditions of people which can turn into peoples support for current government. He also says that staffing based on poitical relation rather based on efficiency also leads to the failure of governmenr system when it comes to comepete with private system. He took all the companies listed in two of china's stock exchnages between 1994 to 1997. The yers which has been taken are important, these are the years when chinese stock market became mature and was not in intial period. This period is also important because chinese econoy was going in the transition phase as chinese government was some proportion of ownership to the private sector or public investors but still non of the state enterprise was fully handed over to privatisation still government had important position. This can be seen as India also following the same path of disinvestment from the pulbic enterprises gradually. There is still difference between the approach of disinvstment between India and china, China has a different set of political system where single point decission has been taken and this has affeted the way public enterprises run by China. China has improved the management model of their own public sector enterprises and has improved efficinecy and productivity while it has not been in the case of India. There are many supporter of the argument that government enterprises are less efficient. Vining and Boardman (1992), Boardman et al. (1989) and Megginson, Nash and Van Randenborgh (1994), among others, provide empirical evidnaces for the proposition that government ownership is less efficient than private ownership.

There are some other opinion also which says that not necessarily that government ownership has less efficiency as researchers Caves and Christensen (1980), Kay and Thompson (1986), Wortzel and Wortzel (1989), Martin and Parker (1995) and Kole and Mulherin (1997). Dewenter and Malatesta (1998) explain that there are mix results of change in ownership from government to the private. They explins that there is a significant improvement in performnace of the firm when firm was about to become private firm. There are different factors affecting government firm'r performance, in China partial government ownership is preferable because zero government involvement does not give assurance the political and other governmental support.Indian does not have such kind of invariably government involvment pressure. (Li, Lam, & Moy, 2005) is another researcher who has studied the restructuring of chinese government firms from total state control to the partial state control. The data have been taken from the chinese stock exchnage companies which were listed before 1996. The study focucses on options and diversifications provided by the companies who have state or non state ownerships. He identifies those firms which effectively done the diversification of goods but with one more characteristics that a firm who has done diversification has very lower rate of state ownership and mist not have done diversification earlier, which means firms with the state ownership have no interest in diversifying products. Another point the researcher noticed that small amount of government involvement has positive relationship on performance.

(Zhou, 2009) has studied 95 listed chinese companies in the Shanghai and Shenzhen sock exchnages. This study suggests that government firms are dependent on the favourable policies of government control and many time the goal of government is beeing motivated by more political aims rather economical aims. He gives the theoritical behavious of Agency theory agents and stackholders. He says that private managers are more motivated and able to take dicissions swiftly because of personal gains. He explain the ownerships in china, he says there are three types of stackholders in China. 1) Government. 2) Legal person. 3) Individual stackholders. He says chinese government is very concerned about the ownership type of the ownership firms, only one third of the shares are given to the individual owners while others arre with above two stackholders. The shares which can be sold and purchased are only sares which are in the hand of individual owners.

study concludes that there is no difference in the performance of any firms weather it is private or government if the governing body has more than 50% shares.

DATA AND METHODOLOGY FOR MY RESEARCH

This study has taken data from the ASI (Annual survey of Industries), CSO at all India level. The time period of study is from 2001 to 20014. The data is based on organisation structure and compriss variables such as no of factories, fix capital, no of labours, productiv capital, value added etc.

The study will first make this data normal with the use of Log Normal. Data which is in terms of rupees will be converted and adjusted by indexes. This research uses three indexes such as Index of machine and tools price, wholsale price index of industrial labour to study the wages component of various ownerships, index of indutrial production (IIP). The least square regression will be taken then and growth rate will be measured and compared of all ownerships inculded in this research.

THEORITICAL CONCLUSION

Most of the research shows the positive relationship between private ownership and performance and very few research shows the positive relation between government or SOEs ownership and performance. There are few common reason which have been taken and mentioned in the litrature as 1) the pay difference between private and public managers, a agent and controler theory also gives support to this result, 2) poor accountability and lack of responsibility if failure occurs, 3) property rights not clearly mentioned or given, 4) lack of required monitoring and checks on day to day works, 5) financial support of gvernment even though poor performance from tax payers money.

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