

The review of functioning of industries' privatization policy in Iran from 2003 to 2008Seyyed Jamal Hosseini¹, L.Hojagani²¹Department of Management, Economics, Accounting, Payame Noor University, I.R. of Iran, P.O. Box 19395-3697 Tehran, Iran. PH.D candidate of Industrial Management in AMEA²Azad University of Qazvin, Iran
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Abstract: Privatization is a necessary and inevitable issue for efficient and optimum allocation of productive resources of the society. With a glance at its approach in Iran, it seems essential to observe a number of things like; opting for sound ways of transferring owing to non-productive properties and costs and profitable enterprises with providing conditions like supplying complete information, freedom of admission to and exit from markets, establishing a discipline and security and lawful ownership, clarity of investments, removing discriminating behaviors resulting from information abuse, approving facilitating rules for foreign investments and giving an assurance for not sudden change in regulations and public availability for information formats and providing timely information where needed.

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1. Introduction

The change in economic role of governments and global efforts for this change has been based on four activities;

- 1- Freeing prices and opening up to global trade and international payments in order to establish a logical relation between demand and supply according to principles of free economic discipline.
- 2- Correction of the role and structure of governmental enterprises usually seeking non-economic objectives, and without reduction or omission of their role, the relative prices of the goods and materials in the market cannot result in an efficient and optimum allocation of productive resources of the society.
- 3- Privatization that is necessary to warranty the enterprise reply to market features. Private units react against change of prices which result in optimum allocation of resources in pursuing profitability. For loss-making units being a private unit there is no way but to renew the structure or close down and transfer the properties to the owners and to use them in a more productive way somewhere else.
- 4- Privatization that warranties the optimum allocation of resources in pursuing profitability. For loss-making units being a private unit there is no way but to renew the structure or close down and transfer the properties to the owners and to use them in a more productive way somewhere else.

- 5- The reason for failure in governmental enterprises (apart from the reason for failure in the whole system of state economy) lies in five factors:

- A. Pursuing contradictory and multilayered objectives vis-à-vis the clear and final objective for a private unit (profitability).
- B. Management dependence on political decisions.
- C. Disproportion between awarding structure and market realities (particularly inflation).
- D. Presence of incentives and motivators for inefficiency, resulting from limits in supplying production agents.
- E. Development of the privatization movement all over the world based on the understanding of these realities.

The major factors for monopoly and disturbance in competition are:

- 1- Governmental system of oil and oil resources and received revenues offering the government about 19% of gross domestic product and covers about 50% its costs.
- 2- The government's full control on foreign currency earned from oil and self-determining its price that in course of time devalues the national currency resulting from wrong monetary and financial policies, have imposed an extremely heavy costs on material, machinery and import of industry

- items as well as on consumers of imported and domestic goods.
- 3- Monopolies pertinent to principle 44 of constitution that monopolizes all key and infrastructural industries and services like aviation, insurance, banking, railways, shipbuilding, post and telephone and radio and television.
 - 4- Monopoly of production of basic metals which has a major application in industries that is at government's disposal according to number A1 item1 law of protection and development industries.
 - 5- The industries of manufacturing and assembling ships, planes and automobiles are at government's disposal according to number A2 law of protection.
 - 6- Founding organizations for adjusting market and departments to support consumers and producers that have been established to reduce deficiencies, although with different and varying interferences, they have made the atmosphere of industrial activities disturbed and cloudy.
 - 7- Founding or developing prevailing state companies such as industrial development and renewal organization, Iran national industries organization, national company of petrochemical industries, Iran national company of steel, national company of copper industries and aluminum sharing company, that have control on hundreds of service and productive units and have narrowed the functional scope of private sectors.
 - 8- Developing the functional scope of prevailing enterprises into new sectors and narrowing down the possibility of private sectors activity. To take an example; the national organization of industries which must originally preside over seized industrial units, solely has invested on 48 new different industrial projects from 1984 according to assigned duties.

Direct interference of public sectors in economic and industrial activities benefitting from government's facilities and authority vis-à-vis limits and inabilities of private sectors in utilizing these facilities for example; social security, retirement organization, the destitute and disabled organization, Emam Khomeini charity organization, executive department of Emam decree, 15 khordad organization, all possess a major part of an industry or different industries and sectors of economic activities exclusively or semi-exclusively. Meanwhile, the private sector which should be allowed into the competition to do the

same activity is unable for the lack of same facilities. Receiving foreign currency, raw materials, low-cost labor force, receiving branches for public services, receiving imports allowance and tax evasion are things which bring the private and public sectors into conflict. (Rashidi, Ali, 2006[3])

2. Statement of the problem

The word privatization means change in the equilibrium between the ruling government and the market for the benefit of market. Privatization is a tool for increase in efficiency (financial and social) of operations of an economic enterprise. Because it seems that mechanism of demand and supply and market in a competitive conditions cause employment of more productive agents, efficiency of agents and as a result production of variety of goods and services and decrease in prices. The prediction is acceptable with respect to the scientific and theoretical foundations at the level of minor economy as well as the experiences of other countries. The whys and wherefores of the problem can be answered and proved but the vague and complicated point is its procedure and the most complicated issue is transferring ownership and forming private sector at society.

3. Significance of the study

To sum up, in order to accomplish the privatization in the best way possible the following should be done simultaneously:

- A) Reinforcement of private ownership rights, change in the structure of enterprises, freeing and eradication of bureaucracy, reform in regulations, reform in financial structure (specially invest market) and labor market.
- B) To encourage and guide towards development of private sector in order to provoke competition and to enter producers to the market.
- C) Transferring governmental public enterprises to private sectors (ownership change)

4. Objectives of the research

The goals for privatization vary according to a country's situation and economic characteristics. However, in all countries dealing with privatization, the main goal is to improve economic conditions. Beside this main goal there can be other ones which are:

- Increase in profitability and national production
- Government access to financial resources of private sectors

- To encourage competition, welfare enhancement and increase in efficiency of economic activities
- Economizing the government costs
- Development in invest market and expanding the culture of collaboration in the country
- To prevent obvious monopolies (such as sugar, smoking and ...) and secret monopolies (granting special advantages to certain people)
- Accumulation of cash and producing balanced discipline of revenue distribution among different strata of society.

5. Theoretical framework of the research

Environmental requirements of privatization at national level should commence with relying on particular strategic goals because many of the assessable projects either stop working or stray from original direction. Stated goals should be defined without negative interference and with prioritized and harmonious endeavor. Strategic goals of privatization could be towards economic, social and cultural development both in the region and the country, omission of monopoly and increase in competition, producing employment, activity growth, reduction of current expenditures of enterprises and downsizing the government. Research hypotheses are as follow:

First hypothesis: There is a meaningful difference between approaches for transferring and problems of industrial privatization in Iran

Second hypothesis: There is a meaningful difference between produced goods problems of industrial privatization in Iran

Third hypothesis: There is a meaningful difference between costs and benefits and problems of industrial privatization in Iran

Fourth hypothesis: There is a meaningful difference between sum of assets and problems of industrial privatization in Iran

Fifth hypothesis: There is a meaningful difference between productive costs and problems of industrial privatization in Iran

Sixth hypothesis: There is a meaningful difference between non-productive costs and problems of industrial privatization in Iran

Seventh hypothesis: The number of staff before and after transferring is different.

Eighth hypothesis: Benefit of the enterprises before and after transferring is different.

Ninth hypothesis: Sum of the assets of enterprises before and after transferring is different.

Tenth hypothesis: Productive costs of enterprises before and after transferring are different.

Eleventh hypothesis: Non-productive costs of enterprises before and after transferring are different.

6. Review of the related literature

It could be said that the Classic economists and to mention the founder of this school of thought, Adam Smith, are among theoreticians that, for the first time, have theorized about the science of economy in a disciplined scientific framework and about efficiency of market system in allocation of optimum resources. And perhaps that is why Adam Smith is known as the father of the science of economy. According to Classics' doctrine, the free market's mechanism is able to produce the best resource allocation and maximum welfare for society through its self-improving systems. Adam Smith disagreed with any sort of governmental interference in economic activities and identified a good government with the least interference and the lowest costs. Smith believes that the only task for Governments is to defend the society's borders against aliens, to enact rules and regulation to establish discipline and to perform some public activities. He sees economic problems like unemployment, inflation, poverty and deprivation, waste of resources and... resulting from government's undue and excessive interference. He identified the governments as corrupted, weak and spendthrift and states; great nations are never plunged into misery with big spending and misdemeanors of private sector but fall into poverty and begging with extravagancy of public sector. Despite belief in self-improving mechanism of market, Neo-classics assumed a more active role for government compared with Classics. They consider that the most basic and important tool for sound functioning of the self-improving mechanism of the market, after perfect competitive conditions, is the presence of ownership rights and warranty to accomplish it. They believe that these two parameters are conducive to reassure the economic job creators that their efforts would be rewarded and as a result, talents, new ideas and creativities appear which make economic activities dynamic and efficient. Kingz, a great scholar in economy, known as the father of major economy, didn't believe in self-improving characteristics of market as well as flowing knowledge and information in it. He believed that the free market discipline is susceptible to chronic imbalance and cannot perfectly utilize the productive resources of the society and is doomed to imbalance. Therefore, Kingz believed that government must interfere in economic activities and adjust and guide the economic atmosphere so that the market system shows all its potentials. Accordingly, government interference in economy and its different

social, infrastructural and military investments became a normal course of events to prevent a dull economy and annual budgets of governments achieved increasingly significant figures owing to economic status and probable dullness.

7. Methodology of the research

The explanatory approach is of congruent sort and by taking into account the research objective parameter; the current research is considered as fundamental- functional approach as the research results seeks to obtain solutions in this regard simultaneous with research process. (doas di ey-bagher sarukhani- h.ali. houman[2],[6],[7]).

Using Morris Morgan's tables the required information from 24 companies consist of Iran's tractor manufacturing company, Pegah Khorasan pasteurized milk, automobile axis manufacturing company, Iran's national copper industries, Sazeh Pooyesh, GolGohar iron rocks, West Azarbaijan Pegah pasteurized milk, Piazar industry and agriculture, Iranian telecommunicating factories, AzarAb energy expansion industries, Sipa glass, Kashan's Amirkabir steel, Fars cement, Tabas' Negin coal, Iran's engine makers of tractor manufacturing company, Iran industrial consultative engineering, Kashmar's zohre enameled granites and tiles, Toos' Sepide glass, company of training buildings, Tehran's electricity logistic services, AlamAra TV screen, Tabriz Machinery manufacturers, Razi petro-chemistry, heavy diesel engine producing company. The above mentioned enterprises have been privatized by two approaches of Stock market and auction between the years 2003-2008. Among these transferred enterprises, 15 companies have been selected with stock market approach and 9 with auction approach.

Statistical specimen of under study industries based on the sort of produced goods is as followings:

8. Data analysis

The results of T test for coupled comparison of 15 industrial manufacturing companies with stock exchange approach and 9 manufacturing companies with auction approach showed that the mean variance equals 108.9 and T equals 3.7 at meaningfulness level of (0.006) which is lower than the research α (0.05). The results show that the auction approach for transferring has been more than stock exchange approach. To explain, the enterprises transferred with auction approach are among those which have been profitable.

The meaningfulness level among variables is higher than 0.05, therefore, there is no meaningful difference between variables.

Table 1. Type of commodity production

Type of commodity production	N	Percent
Capital	11	45.83
Intermediate	5	20.83
Consumable	8	33.33

Since the meaningfulness level is higher than 0.05, therefore, the congruence coefficient is not significant so there is no connection between privatization problems and loss and benefit.

Since the meaningfulness level is lower than 0.05, therefore, the congruence coefficient is significant so there is an indirect relationship between privatization problems and sum of assets.

Since the meaningfulness level is higher than 0.05, therefore, the congruence coefficient is not significant so there is no connection between privatization problems and productive costs.

Since the meaningfulness level is lower than 0.05, therefore, the congruence coefficient is significant so there is a direct relationship between privatization problems and non-productive costs.

The results of T test for coupled comparison of the number of staff before and after transferring show that the mean variance equals 0.34337 and T equals 0.008 at meaningfulness level of (0.993) which is higher than the research α (0.05). The results show that the difference between number of staff before and after transferring is not significant statistically.

The results of T test for coupled comparison of the benefit before and after transferring show that the mean variance equals 363420.667 and T equals 1.08 at meaningfulness level of (0.004) which is lower than the research α (0.05). The results show that the difference of benefit before and after transferring is significant statistically. To explain, the benefit of enterprises has increased after transferring.

The results of T test for coupled comparison of sum of assets before and after transferring show that the mean variance equals 0.243 and T equals 0.181 at meaningfulness level of (0.858) which is higher than the research α (0.05). The results show that the difference in sum of assets before and after transferring is not significant statistically.

The results of T test for coupled comparison of productive costs before and after transferring show that the mean variance equals 170893.7826 and T equals 1.294 at meaningfulness level of (0.209) which is higher than the research α (0.05). The results show that the difference between productive costs before and after transferring is not significant statistically.

The results of T test for coupled comparison of non-productive costs before and after transferring

show that the mean variance equals 50493.3182 and T equals 1.991 at meaningfulness level of (0.040) which is lower than the research α (0.05). The results show that the difference between non-productive

costs before and after transferring is significant statistically. To explain, non-productive costs have decreased after transferring.

Table 2. Hypothesis.

First hypothesis	Significant level	T- Test	Degrees of freedom	Meandifferennce	Transfer
	0.006	3.7	8	108.90	Exchange- Auction
Second hypothesis	Significant level	F- Test	Degrees of freedom	Mean square	Total square
	.083	2.815	2	12998.170	25996.340
	.049	4.346	1	20070.885	20070.885
					Non linear relation ship between variables
					linear relation ship between variables
Third hypothesis	N	Correlation coefficient	Szh significant		
	24	-0.144	0.501		
Fourth hypothesis	N	Correlation coefficient	Szh significant		
	24	0.262	0.000		
Fifth hypothesis	N	Correlation coefficient	Szh significant		
	24	-0.477	0.018		
Sixth hypothesis	N	Correlation coefficient	Szh significant		
	24	0.262	0.000		
Seventh hypothesis	Significant level	T- Test	Degrees of freedom	Meandifferennce	Staff
	0.993	0.008	23	0.34337	Before- Next
Eighth hypothesis	Significant level	T- Test	Degrees of freedom	Meandifferennce	Profit
	0.004	1.08	17	363420.667	Before- Next
Ninth hypothesis	Significant level	T- Test	Degrees of freedom	Meandifferennce	Total assets
	0.858	0.181	22	0.243	Before- Next
Tenth hypothesis	Significant level	T- Test	Degrees of freedom	Meandifferennce	Production Cost
	0.209	1.294	22	170893.7826	Before- Next
Eleventh hypothesis	Significant level	T- Test	Degrees of freedom	Meandifferennce	Non manufacturing
	0.040	1.991	21	50493.3182	Before- Next

9. Implications and suggestions

1- A format and organization which leads to dynamism, accountability, durability and consolidation of the free market mechanism depends

on conditions such as individual freedom, complete information, freedom to enter to and exit from markets, reinforcing rules and regulations, not to

have secret bargains and compromises and efforts to generate competitive conditions.

2- To make a rational economic culture. A rational culture in which discipline, hard and fast rules, security and lawful ownership have been institutionalized since this is crucial for its growth and planning in this regard.

3- Development of communities is dependent on change in people's view about economy, running enterprise and economic behaviors. As reflected in the latest report by the international monetary fund about economic status in Iran: efforts to heighten public knowledge about importance of the mentioned reforms (general policies of principle 44 of constitution) to gain public support, would be essential. ([central bank -areport of the international monitory\[5\]](#))

4- To have a clear, explanatory, and systematic informative discipline accountable for the concerns of investors and job creators including clarity in investments, integration and development of invest markets and the manner of investment in production and service units, monopolies and discriminating behaviors resulting from information abuse and factors increasing the risk for investments. ([gh.reza.safarzadeh\[4\]](#))

5- To accomplish some other integrative activities to better inform foreign investors about facilitating rules and regulations supervising on foreign investments and giving assurance that the rules would not change abruptly, through the media like internet, out of border TV channels, advertising catalogues in international languages and its distribution via embassies and economic bureaus of Islamic Republic of Iran.

6- In order to achieve the mentioned goals, in designing a proper informative discipline the following conditions must be observed:

A. People should be informed of accurate and timely information

B. The required information consisting of facts about enterprises, manner of evaluation, manner of transferring and public distribution of stocks should be available for applicants

C. The clarity of information system should be done for the following purposes:

I. Clarity of the manner of operation (process of the action)

II. Accuracy in execution of processes

III. Correct information system

In addition, the followings should be observed in process of information systems:

A- Certain departments should be identified to provide information

B- Market information should be provided in a proper time to benefit from

C- A legitimate department should be determined to verify the accuracy of information

D- The data should be supplied in a similar format

E- The needs of beneficiaries of the data should be met in designing the format

F- Various and proper tools should be provided in a way that majority of people can have access to it. ([Gh.reza.heidari kord, zohre alipour\[1\]](#))

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