

CHAPTER 5

CONCLUSION

5.1. Summary

A new policy agenda has spread across the globe in the last decade. In Malaysia, privatization has and will still play a crucial role in economic policy. It has been claimed by proponents of the policy that privatization has successfully achieved a number of the objectives outlined in the Privatization Masterplan (PMP). There is no doubt that there have been gains achieved, but in the course of implementing the policy, there have also been trade-offs that have been made, and problems overlooked.

This thesis has looked into three issues:

Firstly, it has studied the existence and extent of underpricing of initial public offers of privatized enterprises and the problem of 'staggering' resulting in the failure to achieve wider share ownership;

Secondly, it has tried to show that improvements in the performance of an enterprise have not been the result of the change in ownership, but rather of a host of other factors;

Thirdly, it has refuted claims that privatization has brought net gains to consumers.

The first part of Chapter 2 analyses the adjusted initial returns to both private and privatized initial public offers (IPOs); a comparison was made to find out whether there are differences in their adjusted initial returns. The analysis shows considerable underpricing of the IPOs of both private and privatized enterprises. Although the average adjusted initial returns for the privatized IPOs were larger, the differences in the degree of underpricing of the two enterprises were not statistically significant. Therefore the evidence does not support the conclusion of deliberate underpricing of privatized IPOs by the government.

The second part of Chapter 2 looks at different methods of valuing new issues. The net tangible asset backing (NTAB), the price-earnings (P/E) ratio or multiples and discounted cashflow valuation were studied in detail. To support the analysis of whether there has been deliberate government underpricing of IPOs, a study of the NTAB and P/E ratios or multiples of privatized companies was undertaken. The study found that the offer prices for the new issues were all higher than the NTA values. Therefore, the prices set for all the IPOs were not below the minimum value of the companies' assets. This study also found that prospective gross earnings multiples or the P/E ratios - based on the offer prices - were all within the guidelines set by the Capital Issues Committee (CIC). The analysis also looked at

the gross earnings multiples over a period of between one week to five years; it was found that the gross earnings multiples registered much higher values for some stocks over the period compared to the values on the day the stocks were listed.

Therefore, the study found that there is considerable underpricing and such underpricing was maintained over a period of time. Although considerable underpricing of IPOs of the privatized enterprises was found, this does not conclusively prove that it was a deliberate policy of the government to underprice. We can only state that the Capital Issues Committee (CIC) guidelines on the range of P/E multiples have been rather conservative in the context of a buoyant economy.

The study suggests that wider share ownership has not be attained through privatization. There has been widespread 'staggering' as the stock turnover on the first day of trading has been very large. The study also shows that Bumiputera individuals only held about 0.55 percent of Telekom stock after two and a half years of listing.

Chapter 3 provides a review of Malaysian privatization based on the 'property rights theory' claim of improving performance. Improvements in economic and allocative efficiency may be wrongly attributed to changes in ownership. In this chapter, the performance of KCT was

evaluated before and after supposed privatization. It was found that the significant improvement in performance of KCT was not a result of the change in ownership, but due to management changes, which could have taken place independently of the ownership change. Majority ownership did not go into private hands as the government still indirectly held on to over 88.7 percent of the enterprise's stock. The increased profitability was also the result of increased exports and imports.

This chapter goes further to look at competition and regulation. It shows that most privatized PEs in Malaysia remain virtual monopolies. The introduction of the 'golden share' enables the government to retain ultimate control in such privatized enterprises. Thus, increased competition and change in control associated with ownership have been rather insignificant in Malaysian privatization.

Chapter 4 focuses on the impact of privatization on consumer welfare. Proponents have strongly argued that privatization has resulted in positive gains due to improved efficiency. The study of various corporatized and privatized entities does not conclusively find consumers better off enjoying improved services at lower prices.

The study of Pos Malaysia before and after corporatization found consumers worse off in terms of higher postage rates they have to pay with little apparent

improvement in the quality of services provided by Pos Malaysia, - e.g. the number of days taken for letters to reach their destinations has apparently increased. Thus, the consumers' fear of higher prices and poorer services as a result of corporatization has not been unfounded.

Another case reviewed in this study is the toll charges for highway use. The North-South Expressway has been constructed and is operated by a private company under a 'BOT' arrangement. Undoubtedly, completion of the highway has been widely welcomed, but users of the highway have to pay a hefty price for use. The profits accrue to the concessionaire which has been generously granted a period of 30 years to collect toll charges. Various alternatives would have enabled the government and/or consumers to gain more from the completion of the highway.

This chapter goes on to study the corporatization of Keretapi Tanah Melayu (KTM). The KTM study further supports the argument as consumers experienced a second fare increase just five months after corporatization.

In all the cases mentioned, user costs have increased quite substantially, resulting in net consumer welfare losses. Also, privatization has not been accompanied by increased competition.

5.2. Policy Implications and Recommendations

In Malaysia, the privatization which has been carried out thus far has yielded mixed results. The policy measures suggested here seek to rectify weaknesses in the existing situation.

In all cases of public flotation of government-owned enterprises, there has been a certain degree of underpricing of shares in the initial public offerings which may be unavoidable. Allowing an after-market premium on a new share issue can attract future investors, but such premiums should not be too large. One way to reduce the degree of underpricing would be to revise the guidelines on the range of price-earnings multiples set by the Capital Issues Committee (CIC), with offer prices set much higher in line with likely, potential earnings.

Another area of concern is the inability of the government to promote wider share ownership in line with its objective of redistribution. One way of discouraging widespread 'staggering' will be by offering certain added attractions to encourage ownership retention, e.g. by offering a one for ten free loyalty bonus issue of shares if they hold their shares for more than three years or so. Alternatively, discounts, e.g. on telephone rentals or utility rates, could be given to stock holders. Such attractions should only be given to small shareholders, but

not to institutional investors, or to shareholders equally regardless of the amount of stock owned. The effect could be quite profound on new investors and this measure would discourage smallholders from selling off their shares in a hurry (Burham, 1989).

Widespread staggling takes place because small shareholders may not have 'holding power'. In line with the government's objective of encouraging wider share ownership, contributors to the Employees Provident Fund (EPF) should be allowed to make use of their savings to apply for shares in government-owned enterprises. As of June 1994, there were approximately 7.1 million contributors to the EPF, and if everyone of them is allowed to use their funds to apply for one lot of shares, the number of small shareholders would be greatly increased, thus achieving the government's redistributational objective.

This thesis has shown that there is no clear-cut relationship between economic performance and ownership change. Improvements in performance have been due to a host of factors. Thus, to improve the performance of public enterprises, and to rectify their weaknesses, it may not be necessary to change ownership, but to institute reforms to improve management. According to Rugayah (1991), the benefits of greater public accountability - coupled with a good reward system based on merits - may reduce "shirking" and motivate workers to maintain and improve efficiency.

Also, the recruitment of a new breed of more efficient directors and managers would bring changes to the enterprises. While privatization symbolises a new approach to development in Malaysia, there is also a need to encourage greater economic deregulation, liberalization and marketization. For the economy to achieve greater growth, it is important that the public and private sectors can better interface and coexist in a more market-oriented environment. A more complementary and supplementary approach may be the best compromise, where - depending on the nature and 'comparative advantage' of each - certain industries or activities are better pursued in the public sector or in private hands (Low, 1991).

Malaysia's privatization policy has yet to significantly improve consumer welfare. Since most of the privatized government-owned enterprises are natural monopolies, it is important that consumers' interests be protected in terms of price, quality and availability of services. Thus, a well-developed regulatory framework should be established to set tariff regimes and minimise costs. Greater accountability and transparency in privatizing projects will also enhance efficiency. If there is more competitive bidding, privatized project would be awarded to firms that have the capability of providing services at minimal cost thus, prices need not increase and the consumer interest can be protected. Also the

privatization of projects should be undertaken for strictly economic and organizational reasons, rather than at the behest of the politically influential so that rent-seeking behaviour may be reduced.

In Malaysia, there is still a long way to go before the privatization policy can be said to have enhanced efficiency and benefitted consumers as well as the government itself. Continuous assessment of the policy and balanced evaluation of its impact should be independently undertaken with statistics and data more easily available.