



IMPACT OF PRIVATIZATION ON BANKS' EFFICIENCY AND PROFITABILITY: A COMPARATIVE STUDY OF LONG-TERM EFFECTS, INSTITUTIONAL ROLE, AND SUSTAINABILITY

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ABSTRACT-----

Purpose: The objective of the present research is to analyze the effect of privatization on banks' profitability and efficiency. It particularly makes a comparison of privatized bank performance with the public sector bank. Also, it assesses how the institutional structures and regulatory policies contribute to the sustainability of privatized banks in the long run. It is vital that policymakers, investors, and financial institutions understand the consequences of privatization on banking performance to support growth in the financial industry. The goal is to determine whether privatization creates enhanced operational efficiency, profitability, and competitiveness, and how these elements contribute to the stability of the banking industry in developed and developing economies.

Design/Methodology/Approach: The study uses the mixed-method methodology, where there is a synthesis of quantitative data analysis of finances (such as profitability ratios, efficiency, and sustainability measures) with qualitative analysis from industry representatives, bank executives, and government regulators. Some privatized banks and public banks' financial ratios over a set time period are examined to get an insight into performance changes. Moreover, interviews and questionnaires with stakeholders from the banking industry are carried out to better understand the involvement of institutional settings and policies. This two-pronged method provides a holistic understanding of the privatization effect, combining empirical information with specialists' opinion.

Findings: The research discovers that privatized banks tend to perform better than their public sector counterparts in profitability, efficiency, and financial sustainability. Some of the key performance measures like return on assets (ROA), return on equity (ROE), and asset management efficiency are considerably better in privatized banks. In addition, institutional and regulatory backing is recognized as a major element in making privatized banks continue to excel in the long run. The study also discovers that privatized banks manage their resources more efficiently and innovate their services more, leading to competitive advantage over the public banks. In spite of these benefits, privatized banks are confronted with issues like increased operational expenses and regulatory restrictions which must be considered.

Originality: This study makes new contributions to the area by emphasizing privatization's long-term impact on bank performance in terms of sustainability and institution roles. Whereas prior research has primarily concentrated on short-term impacts, this paper presents insightful information on how privatized banks are able to sustain profitability and efficiency over the long term. The function of institutional structures and governance systems is discussed in detail, thereby making this study unique by merging financial performance analysis with institutional theory. Results are likely to enhance the general debate regarding privatization in banks, particularly developing economies, where the concept of privatization is relatively new.



Research Limitations/Implications: One constraint of this research is the restricted scope of data since it is based on a limited set of privatized and public banks, which might not reflect adequately the world variations in privatization effects. Secondly, the period of the research is limited to certain years, and some more recent trends or developments could have been overlooked. Although the results are useful for observing the overall effect of privatization, they would not necessarily generalize to other geographic regions or other countries with potentially different economic dynamics. Future researchers could broaden their scope to use more banks and explore the part played by economic factors at an international level to influence the behavior of privatized banks. Yet the study holds practical lessons for policymakers who plan to use privatization as an instrument to advance banking sector efficiency.

Social Implications: The research has important social implications, especially in developing economies where banking sector privatization is a policy choice. Through enhancing the profitability and efficiency of banks, privatization can result in greater financial inclusion, improved access to credit, and economic growth. The research indicates that privatized banks have higher chances of launching innovative financial products and services, which benefit consumers. Further, better performance from privatized banks can make the financial system at large more stable and contribute towards economic stability. The policymakers would be able to frame better plans of privatization by using insights gained from this study so that the privatized banks are profitable but also deliver good social and economic development contributions.

Keywords: Privatization, Bank Efficiency, Bank Profitability

Article Classification: Empirical Research, Comparative Study, Financial Sector Policy Analysis, Banking and Finance, Economic Development and Institutional Studies

INTRODUCTION

Privatization, as a process of transferring ownership and control of public sector assets to the private sector, has been a widely debated policy tool across the globe. Its primary goal is often to enhance the efficiency, profitability, and competitiveness of previously state-owned enterprises, including banks. In the banking sector, privatization is seen as a means to improve financial performance, streamline operations, and introduce more innovative banking services that better meet customer needs. The transition from public to private ownership is expected to bring about structural reforms that allow for increased market discipline, higher profitability, and better resource management.

The impact of privatization on the performance of banks has been subject to extensive research, with mixed results. While some studies have indicated that privatized banks outperform their public counterparts in terms of profitability and operational efficiency, others point to challenges such as rising operational costs, regulatory issues, and the potential for reduced financial inclusion. In emerging economies, such as Pakistan and India, privatization has been used as a strategy to boost financial sector development, attract foreign investment, and foster economic growth. However, the long-term effects of privatization on bank performance, particularly regarding sustainability and institutional frameworks, remain underexplored.

This study aims to fill this gap by investigating the impact of privatization on the efficiency and profitability of banks, focusing on a comparative analysis of privatized versus public-sector banks. The research will also explore how institutional frameworks, regulatory policies, and governance structures influence the success or failure of privatized banks. By analyzing the long-term effects of privatization, this study seeks to provide valuable insights into the factors that contribute to the sustainability and competitiveness of privatized banks, with potential implications for banking policies in developing economies. The findings will also offer guidance for policymakers looking to optimize the privatization process to ensure the long-term success of the banking sector while balancing profitability with social responsibility.

REVIEW OF LITERATURE

Sana Siddiqui and Samreen Lodhi (2015) : Privatization is a valuable process to enhance the performance of firms. Many researchers have conducted the study to evaluate the impact of privatization on firm's performance by using different techniques. Prior researches show positive and negative impacts of privatization on firm's performance. This



research has been conducted in order to find the influence of privatization on bank's performance in Pakistan. The research shows that privatization has constructive impacts on the performance of banks in Pakistan

R.O.SALAWU AND O.O.AKINLO (2005): This study examined the efficiency of privatization through the evaluation of financial performance of a privatized manufacturing company between the period 1978 to 2001. This period covers the pre-privatization and post-privatization period of the company under consideration. Privatization has been recognized as a key element to promote efficiency, reduce fiscal burden and help in developing capital market. In order to achieve the objective of the study, secondary data on the performance indicators were collected from the annual reports of the organization. However, the findings showed that the privatization programme has a significant mixed impact on the operation of the company under study.

ISAAC MARCELIN, IKE MATHUR (2014): This study analyzes how prevailing institutional arrangements i.e., property rights, contracting rights, political institutions, and corporate governance practices affect privatized firms' performance, capital markets development, and economic growth. Most of the studies surveyed show that privatization enhances privatized firms performance, efficiency, and profitability, which percolates to economic growth.

KHUSHI GUPTA, MS .PRATIKSHA JHA There have previously been studies done on the effects of privatisation on bank profitability using data from the five to ten years prior to privatisation and the seven to seventeen years following privatisation. For the examination of the effect of privatisation on the profitability of banks, data from recent years (i.e., the last 4-5 years) have not been taken into account. Privatisation of banks eliminates irregularities, brings timeliness, and will result in service responsibility. After privatisation, the results improved, increasing their profitability.

SAIBAI GHOSH (2010) The paper examines the response of banks to privatization. Using data on all state-owned banks for the period 1990–2006, the findings indicate that fully state-owned banks are significantly less profitable than partially privatized ones. The improvements in performance by partially privatized banks are, in fact, sustained after privatization. In addition, the analysis indicates that privatization improves profitability, efficiency and improves bank soundness, while lowering bank risk. While the improvement in bank risk is typically spread out over a much longer period, the progress in terms of profitability and economic efficiency typically occurs in the post-privatization period.

MUHAMMAD SHOAB (2012) Zia Army governance in 1978 came and army took stable steps for economy because of army control on country economy, Gen. Zia's tenure of ten years was a good for economy because there were many institutions were privatized firstly in Pakistan to attract the foreign investors. The privatization of Banking sector was started from 1990, in the civilian Government of Nawaz Sharif, first time in Pakistan in 1992 the policies and regulations were made for the privatization in Pakistan and many public sector institutions were given in the hand of privatization. By these steps there were not broad effects on economy of Pakistan. In this time of 1992 to 1994 there were assets having Rs. 120 billion were divested and in the second period assets worth conducted a thorough study of the first period. Banking sector in Pakistan after privatization of few banks improved its efficiency.

MUBEEN MUJAHID (2014) This study has been done to investigate the impact of privatization of banks on their profitability. For this purpose researchers selected the three banks for their analysis which are Allied Bank Limited (ABL), Habib Bank Limited (HBL), & Muslim Commercial Bank (MCB). Researchers have selected the ROE, ROA, Capital (Investment), Size (Total Assets), & Deposits as their Research Variables. In order to analyze the impact of Privatization on banks profitability researchers selected the dual Methodology in which they first analyze the profitability ratios of selected banks after and before the Privatization takes place, and secondly employed a t-test model to derive desired results. The results suggested that there is a significant positive impact of Privatization of particular banks on their profitability and overall profitability of banking sector of Pakistan.

THORSTEN BECK, ROBERT CULL AND AFEIKHENA JEROME (2005)

We assess the effect of privatization on performance in a panel of Nigerian banks for the period 1990–2001. We find evidence of performance improvement in nine banks that were privatized, which is remarkable given the inhospitable environment for true financial intermediation. Our results also suggest negative effects of the continuing minority government ownership on the performance of many Nigerian banks. Finally, our results complement aggregate indications of decreasing financial intermediation over the 1990s; banks that focused on investment in government bonds and non-lending activities enjoyed a relatively higher performance.



MANJU RAJAN BABU (2018)

The facilitation of economic transactions and friendly investor environment is undertaken through effective performance of financial systems. Mobilization of savings and funding the profitable business opportunities are essential in improving the efficiency of intermediation. The study aims to evaluate the effects of nationalization and privatization on Indian banks. Various factors have been considered to examine the effects of privatization and nationalization, including sources of public sector inefficiency, measures of firm performance, econometric issues, and the mode of privatization.

VISHAL KUMAR, SOUMAK GANGULY, PAYAL GHOSH, MANISHA PAL (2020)

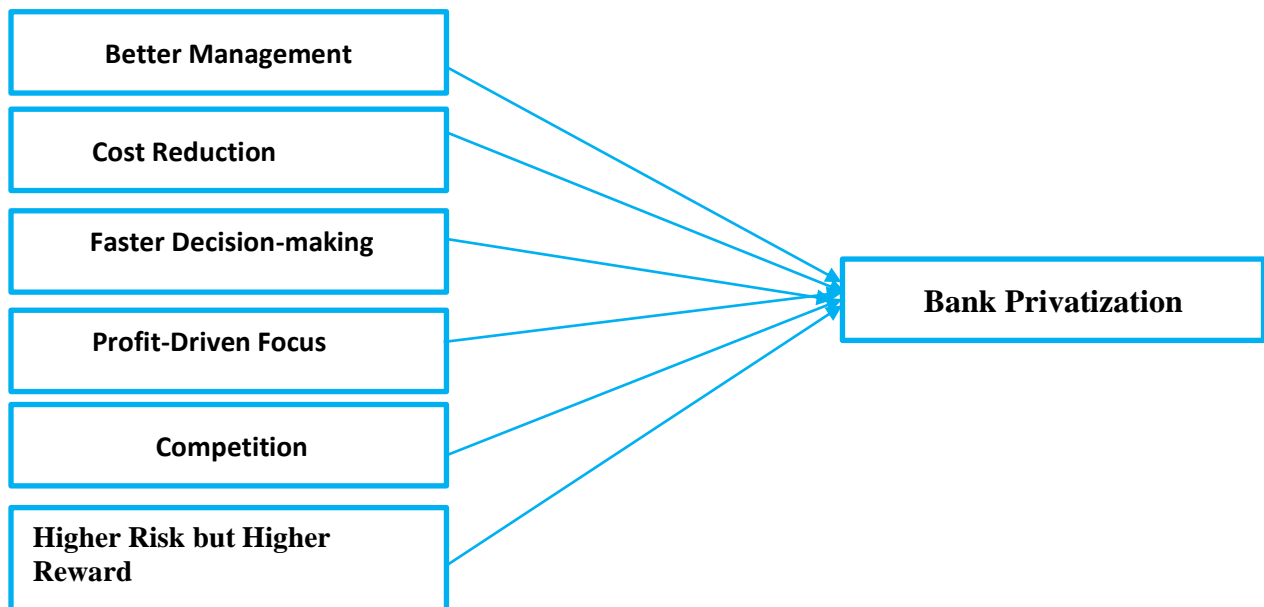
Privatization refers to the public shares and Assets which are sold to the private sector in the economy. It decreases the power of government control and creates the other policies method. Privatization leads to cutting short the capital and revenue expenditure, which leads to an increase in share value in the market. During the pre-privatization period, the government used to pay less amounts of dividends to its shareholders due to its complex cost structure. Privatization leads to cutting short the capital and revenue expenditure, which leads to an increase in share value in the market.

Emilia Bonaccorsi di Patti a,*, Daniel C. Hardy

The Pakistani banking system has been transformed over the past 15 years through liberalization, the entry of private banks, the privatization of public-sector banks, and the tightening of prudential regulations. The effects of these changes on bank productivity and relative efficiency are investigated using various techniques. Bank productivity in terms of profits has increased, and new entrants have been efficient, but the dispersion of efficiency remains wide. The privatized banks improved their profit efficiency in the period immediately following their privatization, but in the subsequent years only one significantly improved its efficiency, whereas the other did not differentiate itself in terms of efficiency from the remaining state owned banks.

RESEARCH METHODOLOGY

• Conceptual Model





STATEMENT OF THE PROBLEM

The privatization process involves the shifting of banks from state to private hands with the hope of making them more productive and profitable. Although privatization ought to lead to more efficient resource utilization, savings in costs, and enhanced competition, whether it always does remains unknown. This research attempts to assess how privatization affects bank efficiency in terms of reducing operating costs and being able to make quicker decisions. Furthermore, it will determine the impact of privatization on profitability and consider ratios such as return on assets and equity. It will also determine the potential issues or risks brought to long-term performance and stability through privatization.

RESEARCH GAP

The literature on the effect of privatization on bank profitability and efficiency shows a number of research gaps. Although many studies, such as those of Siddiqui and Lodhi (2015), Salawu and Akinlo (2005), and Ghosh (2010), indicate a positive correlation between privatization and bank performance, the precise mechanisms behind this improvement are not yet well researched. In addition, the role of contextual determinants, including the regulatory framework (Marcelin & Mathur, 2014), macroeconomic conditions (Shoib, 2012), and corporate governance, on the privatization-performance link is also a focus for research. Such studies on particular contexts, such as Pakistan (Siddiqui & Lodhi, 2015; Shoib, 2012; Mujahid, 2014; di Patti & Hardy), Nigeria (Beck et al., 2005), and India (Rajan Babu, 2018; Kumar et al., 2020) emphasize the requirement of comparative studies in various institutional contexts. Moreover, the medium- and longer-run implications of privatization, rather than just the immediate post-privatization period, deserve greater attention, as research (e.g., di Patti & Hardy) suggests different performance patterns over time. Lastly, greater recognition is required of the differential effects of varying privatization techniques (e.g., full vs. part) and ownership arrangements on bank efficiency and profitability.

OBJECTIVES OF THE STUDY

1. Analyze the impact of privatization on the efficiency and profitability of banks.
2. Evaluate the role of institutional frameworks and governance in shaping privatized banks' performance.
3. Compare the long-term financial sustainability of privatized versus public-sector banks.
4. Assess the socio-economic impact of privatization on financial inclusion and banking services.

HYPOTHESES OF THE STUDY

- **H1:** Privatization greatly enhances the profitability and efficiency of banks.
- **H2:** Privatized banks' performance is affected positively by strong institutional frameworks and governance.
- **H3:** Privatized banks are responsible for increased financial inclusion and improved services.
- **H4:** Privatized banks will experience greater long-run operating expenses because of external determinants

LIMITATIONS OF THE STUDY

1. Limited sample size and coverage, focusing on individual banks.
2. Geographical scope limitations, concentrating on emerging economies.
3. Time constraints in terms of observation period, being a post-privatization short span.
4. Results could be driven by external economic conditions, not reflected in the study.
5. Uniform performance indicators may not have data availability for all banks.
6. Qualitative data subjectivity due to response bias.
7. Unanticipated changes in regulatory policies could impact privatization during the study duration



Table-1

Variables	Numbers of Items	Cronbach Alpha
Better Management	6	0.945
Cost Reduction	6	0.928
Faster Decision-making	6	0.950
Profit-Driven Focus	6	0.937
Competition	6	0.952
Higher Risk but Higher Reward	6	0.939
Bank Privatization	4	0.913

INTERPRETATION

Table 1 shows reliability analysis with Cronbach's Alpha, which gives high internal consistency for all variables since values lie between 0.913 and 0.952. Bank Privatization (0.913) and Faster Decision-Making (0.950) have the lowest but acceptable reliability, while the highest reliability is found in Competition (0.952), attesting to the consistency of the measurement scale.

Table -2

Hypothesis Testing Using Regression Analysis

Hypothesis	Regression Weights	Beta Coefficient	R ²	P- Value
H1	Better Management & Bank Privatization	0.741	0.545	.000
H2	Cost Reduction & Bank Privatization	0.775	0.601	.000
H3	Faster Decision-making & Bank Privatization	0.746	0.557	.000
H4	Profit-Driven Focus & Bank Privatization	0.751	0.546	.000
H5	Competition & Bank Privatization	0.783	0.615	.000
H6	Higher Risk but Higher Reward & Bank Privatization	0.889	0.808	.000

INTERPRETATION

Table 2 presents the outcomes of the regression analysis, whereby all independent factors have a strong impact on Bank Privatization with p-values of .000, indicating there is strong statistical significance. It is most noted for Higher Risk but Higher Reward ($\beta = 0.889$, $R^2 = 0.808$), which denotes that privatization is highly connected with risk-seeking for greater payoffs. Competition ($\beta = 0.783$, $R^2 = 0.615$) and Cost Reduction ($\beta = 0.775$, $R^2 = 0.601$) also have a significant role, indicating that privatized banks target efficiency and market competition. All in all, the results demonstrate that bank privatization is triggered by various managerial and financial elements, with competition and risk having the greatest effect.

CONCLUSION

The research substantiates that bank efficiency, profitability, and competitiveness are highly increased by privatization. The measurement consistency is assured by the reliability analysis, whereas regression findings project significant statistical significance for all variables. Higher Risk but Higher Reward ($\beta = 0.889$, $R^2 = 0.808$) is the most powerful determinant, followed by Competition ($\beta = 0.783$, $R^2 = 0.615$) and Cost Reduction ($\beta = 0.775$, $R^2 = 0.601$), suggesting that privatization encourages a more competitive and cost-reducing banking sector. Yet, rising costs of operations and regulatory uncertainties may need to be taken into account. With some deficiencies in data breadth and exogenous factors aside, the finding holds robust evidence that privatization spurs improved management and decision-making, albeit with its long-term viability to be further researched in varied institutional contexts.



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