THE EFFECT OF OWNERSHIP STRUCTURE ON DIVESTMENT OF MANUFACTURING SECTOR IN INDIA

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ABSTRACT

The study compares the pre- and post divestment financial and operating performance of the selected disinvested Central Public Sector Enterprises (CPSEs) of Indian Manufacturing sector based on the percentage of stake retained by the government after divestment. The approach to divestment of CPSES plays an important role in performance improvement after divestment. The effect of divestment varies according to the approaches of divestment is determined. A sample of 12 firms is drawn from various cognate group viz., Fertilizer, Heavy Engineering, Medium & Light Engineering, Petroleum (refinery & marketing) and Transportation Equipment of Indian CPSEs. The period of analysis covers 5 years before and 5 years after divestment. The sample is portioned into three subsamples based on the percentage of stake retained by the government after divestment. Hence, the full sample is partitioned into minority, majority and complete privatization which might lead to difference in the profitability, operating efficiency, output, employment, solvency and stock indicators to test our predictions, the technique of Megginson et al. (1994) was followed in order to determine post divestment performance changes. The analysis is based on ratio analysis, mean, median, Wilcoxon Signed-rank test and sign test are used as principal methods for testing significant changes in variables. To test the significant differences among the group Kruskal-Wallis test is applied for the subsample based on approaches to divestment is adopted. Based on the results obtained from the study, it is documented that greater performance improvement for the group of companies that experience where the dilution of government ownership is beyond 51 per cent than for group of companies experiencing less change in government ownership except in NIE, DER and DPR.

KEYWORDS: Divestment; Minority Divestment; Majority Divestment; Complete Privatization; Profitability; Operating Efficiency; Output; Employment; Solvency; Stock Indicators.

REFERENCES

