

Performance of Bhrikuti Paper and Pulp Limited: Before and After Privatization

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Abstract: *The article evaluates the performance of Bhrikuti Paper and Pulp Nepal (BPPN) Ltd. through the Ex-post Facto Analysis by taking different indicators and variables based on secondary data. It used ratios, average and percentage. The study showed no contribution of privatization in the improvement of performance indicating privatization is not the only one end for improvement.*

I. INTRODUCTION

Bhrikuti Paper and Pulp Nepal Pvt. Ltd. was established in 2039 B.S. under the Companies Act 2021 B.S. with the financial and technical assistance of the people's Republic of China. With authorized share capital of Rs. 1215 million. It was privatized after its twelve years of operations in 1992. Its capacity before privatization was only 13 ton per day but after privatization it has increased its capacity 106 tons per day.

II. THE PROBLEM

Privatization was first started in United Kingdom. This wind blew all over the world and Nepal could not leave without its effect. So Nepal started privatization in 1992. Since then so many phases of privatization were completed and now it was taken as the internal necessity and external compulsion. Despite many criticisms on its processes and methods, MOF, Nepal had tried to monitor these privatized entities after a big gap. Department for International Development (DFID) had also monitored these enterprises during that period. But dissimilarities were found between the findings of MOF and DFID. People were in confusion. This might mislead the people in the country. Therefore, it is a time for searching the real situation of the SOEs in the country. The present study is directed toward this issue. For the study BPPN Ltd. is taken as the case of the study.

III. METHODOLOGY

The study was basically done on the secondary data using different variables and indicators. The variables were production, sales, net worth, net profit, total investments,

total assets and indicators were capacity utilization, different ratios like sales production ratio, assets turnover ratio, profitability ratio in terms of sales, investment and net worth were used. The ratios, percentage and average are also computed.

III. REVIEW OF THE STUDY

In theory, efficiency will be highest when an enterprise-public or private-strives to maximize profits in a competitive market, under managers with the autonomy, capacity and motivation to respond to competition and when enterprises that cannot compete go bankrupt. In practice state owned enterprises seldom face such conditions (Shirley, 1987:5). Because of this reason, SOEs have failed in many cases in these days, especially in developing and underdeveloped countries.

In Nepal, impact of post privatization on production, price, employment etc. are not seen considered since no remedial measures are being taken as many privatized manufacturing enterprises are still either not operating or very poor operating. In a decade, Rs.11442 million capitals were employed in manufacturing and service sector. The companies requiring capital for technology and energy are on the block of privatization (Business Age, Vol.2, and February 2000: 38).

As regard to the impact of privatization, the post privatization performance of phase one has been a mixed one and presents a complex picture. The second phase privatized enterprises performance is also disappointing and are still trying to adjust new environmental milieu of private sector. The capacity utilization has gone down. The picture is also disappointing in terms of employee productivity. The technical improvement has taken place in Bitumen and Barrel Company after privatization. The assessment of the performance of the eight privatized public enterprises shows that privatization is successful in narrow range of favorable conditions (CRPS, 1995:36-38).

Auditor General's Office (1998) presented a Performance Audit Report of privatized public enterprises and found that Production and sales increased but profit decreased in most of the privatized enterprises. The report also included the comments and recommendations made for the privatization programme.

The Government has committed to privatize 30 PEs during the Ninth Five Year Plan period (1995-2000) to improve the performance of the SOEs. But only five units were privatized even the privatization euphoria generated by the paper mill was short line due to its continuing sick condition (Business Age, Feb 2000:33).

From foreign investment perspective too, it did not appear to be encouraging because privatization and liberal economy policy have not yet been able to attract significant investment into Nepal from foreign or domestic investors. When an international investment specialist Anthony E. Wielder managed 50 million funds to Nepali government for investment in Nepal, he was disappointed. According to him first our government had not been able to understand what a country fund was. The government also was changed three times since he first admitted his proposal and our government had not been all legislation in place to commit foreign investment (Business Age, vol.1, December 1999:62).

For investors seeking to capitalize on investment opportunities in frontier market privatization offers are important market entry (www.fdi.net, December 20,2007)

Pradeep K. Shrestha viewed that privatization may bring worse result if it is used primarily as load-shedding device to shed the administrative and financial burden of having run sick enterprises, from the government to the private sector (Kathmandu Post, November 25, 1999), generated by the paper mill was short line due to its continuing sick condition (Business Age, Feb 2000:33).

Nepal should look around herself and push privatization of state enterprises that are not only an inefficient, corrupt and totally useless but also that they are a big drain on the national exchequer at the cost of the tax payers (The Independent, April 8, 1992:7) .

Once our Late King Birendra had questioned to Dr. Tulsi Bhattarai to their chairman of Gorkhapatra Sansthan "Is it legitimate in multiparty system for government to own and operate newspaper?" (The Kathmandu Post, December 12, 1997)

Mishra (2000) of Nepal South Asia Centre has said that the very objective of privatization seems to be lost in Nepal. He stressed everybody is suspecting malpractices in privatization deal. But he also added that since Nepal already has a very big private sector with the some 94 % of the economic activities, privatization should not be a very big issue here (Business Age, February 2000).

Manandhar (1998) also viewed that the total impact of privatization on Nepali economy is expected to be minimal as the number of enterprises that have been privatized constitute only a small fractions (2%) of the government total investment in the public enterprises sector.

The challenges are not limited to privatized enterprises. Privatization poses significant problems for the remaining public enterprises which must justify their existence with facts and thus creates invisible competition. The most difficult task is that of the regularity state. Since the state is responsible for restablising or balance between the interest of consumer and those of the producer (Zini, 1992:74).

Production and sales

Table 1: Change in Production Unit of BPPN (in '000 metric ton)

Before privatization			After privatization		
Year	Production	Percentage change	Year	Production	Percentage change
044/045	2524	-	049/050	N/A	N/A
045/046	3171	25.6	050/051	3801	45.1
046/047	2968	-6.4	051/052	4082	7.4
047/048	2574	-13.3	052/053	3801	-6.9
048/049	2620	1.8	053/054	9172	141.3
			054/055	9971	8.7
			055/056	10112	1.4
			056/057	10670	5.5
			057/058	13194	23.2
			058/059	12716	-3.3

Average percentage change = 1.5

Average percentage change = 24.7

Table 1 showed that before privatization the production trend of BPPN was fluctuating. But after privatization the production trend was mostly increasing recording a significant increase in the year 053/054. Thus the average percentage change on production has improved after privatization showing an average percentage change of 24.7% which was only 1.5 percent before privatization.

Table 2: Change in Sales of BPPN

(in '000 metric ton)

Before privatization			After privatization		
Year	Sales	Percentage change	Year	Sales	Percentage change
044/045	2733	-	049/050	N/A	N/A
045/046	3361	23.0	050/051	3622	41.5
046/047	2936	-12.6	051/052	3903	7.8
047/048	2524	-14.0	052/053	3872	-0.8
048/049	2560	1.4	053/054	8140	-10.2
			054/055	10089	23.9
			055/056	10625	5.3
			056/057	10734	1.0
			057/058	13524	26.0
			058/059	11991	-11.3
Average percentage change = 0.4			Average percentage change = 22.6		

Before privatization the sales of the BBPN was decreasing but after privatization the sales increased tremendously especially in the year 053/054. The average percentage change was recorded at 22.6%. Before privatization it was only 0.4%. Thus privatization has helped to increase sales of the factory.

Resource Utilization

Table 3: Change in Capacity of BPPN

Before privatization			After privatization		
Year	Capacity	% Change	Year	Capacity	% Change
044/045 to 049/050	3900 (13 ton X 300days)	-	051/ 052 to 052/053	5400 (18 ton X 300 days)	38.5
			053/054 to 058/059	26400 (88 ton X 300 days)	388.9

The production capacity of BPPN was 13 ton per day before privatization. But after privatization it has increased its capacity twice once to 18 tons and next by 88 ton. As shown by the table above, the capacity of the mill was increased by 388.9% after privatization showing substantial improvement in terms of capacity.

Table 4: Capacity Utilization of BPPN

Before privatization		After privatization	
Year	Capacity utilization	Year	Capacity utilization
044/045	64.7%	049/050	N/A
045/046	81.3%	050/051	70.4%
046/047	76.1%	051/052	75.6%
047/048	66.0%	052/053	70.4%
048/049	67.2%	053/054	34.7%
		054/055	37.8%
		055/056	38.3%
		056/057	40.4%
		057/058	50.0%
		058/059	48.2%
Average capacity utilization = 71.0%		Average capacity utilization = 51.8%	

The table 4 shows that before privatization the capacity utilization was maximum at the level of 81.3% in the year 045/046 and it reduced to 67.2% in the year 048/049. But after privatization the capacity utilization decreased substantially except in the earlier part of privatization. Small increments were also noted but they were found to be insignificant. Thus average capacity utilization reached to 51.8% after privatization. Before privatization it was 71.0%. Thus it showed that capacity utilization has decreased after privatization. The reason may be that the capacity expansion may not have been initiated with thorough and careful market analysis. It only exhibited capacity expansion without carefully considering the market prospects or managerial capacity to utilize expanded capacity. Thus privatization in the real sense may not have improved the professionalisation in operation.

Table 5: Sales Production Ratio of BPPN

Before privatization		After privatization	
Year	Sales production ratio	Year	Sales production ratio
044/045	108.3	049/050	N/A
045/046	106.0	050/051	95.3
046/047	98.9	051/052	95.6
047/048	98.1	052/053	101.9
048/049	97.7	053/054	88.8
		054/055	101.2
		055/056	105.1
		056/057	100.6
		057/058	102.5
		058/059	94.3
Average sales production ratio = 101.8		Average sales production ratio = 98.4	

Before privatization sales production ratio was decreasing but after privatization, the ratio was still not sufficient to break the record of the pre-privatization period when

compared averagely due to substantial decrease in the ratio in the year 053/054 and 058/059. Thus sales production ratio was not found to be different significantly in the subsequent years before and after privatization. It indicated that privatization did not help to have affected sales production ratio though there was a small change in efficiency to generate adequate sales commensurate to production.

Table 6: Assets Turnover Ratio of BPPN

Before privatization		After privatization	
Year	Assets turnover ratio	Year	Assets turnover ratio
044/045	0.4	049/050	0.2
045/046	0.5	050/051	0.3
046/047	0.6	051/052	0.2
047/048	0.5	052/053	0.2
048/049	0.5	053/054	0.3
		054/055	0.3
		055/056	0.3
		056/057	0.4
		057/058	0.5
		058/059	0.5
Average assets turnover ratio = 0.5		Average assets turnover ratio = 0.3	

Before privatization the assets turnover ratio of BPPN was fluctuating. It was basically increasing except in the year 047/048. The average ratio came to be 0.5. After privatization, the ratio declined significantly from 0.5 in 048/049 to 0.2 in 049/050. The scenario after privatization was gloomy up to 056/057. It improved to some extent in 057/058 and 058/059. However the poor average ratio of 0.3 in assets turnover after privatization showed that the level of assets utilization has worsened after privatization.

Profitability

Table 7: Trend of Profitability of BPPN

(in Rs '000)

Before privatization			After Privatization		
Year	Profit	Percentage change	Year	Profit	Percentage change
044/045	2650	0	049/050	-472	- 97.9
045/046	8840	+233.6	050/051	-3132	- 563.6
046/047	14072	+59.2	051/052	7425	+137.1
047/048	75066	+433.4	052/053	10672	+ 43.7
048/049	6719	-91.1	053/054	-41527	- 289.1
			054/055	-228202	- 449.5
			055/056	-172328	+ 24.5
			056/057	-110047	+ 36.1
			057/058	-107292	+ 2.5
			058/059	-110235	- 2.7
Average percentage change=26.2			Average percentage change= - 83.3		

Before privatization of the BPPN, the profitability trend was increasing showing the highest volume of profit of Rs.75066 thousand in the year 047/048. When the trend of profit after privatization was analyzed, the factory was able to earn profit only after two years of privatization i.e. in the year 051/052 and 052/053 showing profit of Rs.7425 and 10672 thousand respectively. After that in all the subsequent years the factory was incurring losses reaching the highest volume of loss of Rs.228202 thousand in the year 054/055. Though the factory was trying to reduce losses year after year it was insignificant and there was no chance of earning profit when analyzed from the view point of continuous negative profitability. Thus it showed that privatization has not contributed to improve the performance of the factory. It only deteriorated the existing financial position of the factory. The average percentage change in profitability 26.2% before privatization was turned to negative of - 83.3%.

Table 8: Return on Net Worth of BPPN

Before privatization		After privatization	
Year	Net worth ratio	Year	Net worth ratio
044/045	2.1	049/050	-0.5
045/046	5.4	050/051	2.5
046/047	8.4	051/052	3.4
047/048	44.0	052/053	3.4
048/049	3.7	053/054	11.3
		054/055	-156.4
		055/056	-215.5
		056/057	-280.6
		057/058	-71.2
		058/059	-
Average net worth ratio = 12.7		Average net worth Ratio= -75.1	

Table 9: Return on Sales of BPPN

Before Privatization		After Privatization	
Year	Profit sales ratio	Year	Profit sales ratio
044/045	4.8	049/050	-1.6
045/046	11.1	050/051	-2.4
046/047	15.1	051/052	4.5
047/048	94.1	052/053	5.1
048/049	7.5	053/054	-11.4
		054/055	-54.8
		055/056	-38.1
		056/057	-22.3
		057/058	-16.4
		058/059	-19.0
Average profit sales ratio = 26.5		Average profit sales ratio = -15.6	

Table 10: Return on Investment of BPPN

Before privatization		After privatization	
Year	Return on investment	Year	Return on investment
044/045	2.0	049/050	-0.2
045/046	5.4	050/051	-0.8
046/047	8.4	051/052	1.1
047/048	44.4	052/053	1.0
048/049	3.8	053/054	-3.4
		054/055	-19.9
		055/056	-15.6
		056/057	-11.2
		057/058	-13.4
		058/059	-10.5
Average return on investment = 12.8		Average return on investment = -7.3	

Return on net worth, Return on sales and Return on investment all were increasing before privatization recording highest ratio in the year 047/048. But after privatization the situation deteriorated and ratio were negatively increasing. The highest negative net worth ratio of 280.6% was in the year 056/057 where as it was 54.8% and 19.9% in the year 054/055 in the case of return on sales and return on investment. The average return on net worth, sales and investment reached to -75.1%, -15.6% and -7.3% from 12.7%, 26.5% and 12.8% after privatization which shows unsatisfactory result in the performance after privatization. Net worth ratio has worsened significantly. The increasing interest liability on the substantial loan borrowed by the mill after privatization may cause such situation.

Employment and Productivity

Table 11: Change in Number of Employees at BPPN

Before privatization			After privatization		
Year	no. of employment	% Change	Year	no. of employment	% Change
044/045	319	-	049/050	N/A	N/A
045/046	289	-9.4	050/051	342	15.2
046/047	280	-3.1	051/052	383	12.0
047/048	283	1.1	052/053	442	15.4
048/049	297	5.0	053/054	442	-
			054/055	442	-
			055/056	442	-
			056/057	600	35.8
			057/058	600	-
			058/059	546	-9.0
Average percentage change = -1.3%			Average percentage change = 7.7		

The number of employees before privatization was fluctuating showing an average percentage change of -1.3%. But after privatization there was an increasing trend of number of employees i.e. 600 in the year 056/057. There after the trend was again

tended to decrease in the year 058/059 with the number of employees coming down to 546. Thus after privatization the numbers of employees were increased in this factory but it turned to downward again in the year 058/059. Thus privatization has helped to increase employment to some extent.

Table 12: Employee Productivity Ratio of BPPN

(in terms of Sales or Income in Rs'000)

Before privatization			After Privatization		
Year	Employee productivity ratio	Index	Year	Employee productivity ratio	Index
044/045	173.5	100	049/050	N/A	N/A
045/046	274.6	158.2	050/051	388.1	223.7
046/047	332.8	191.8	051/052	433.7	250.0
047/048	281.9	162.5	052/053	470.1	271.0
048/049	301.1	173.5	053/054	828.1	477.3
			054/055	941.8	542.8
			055/056	1023.3	589.8
			056/057	821.0	473.2
			057/058	1092.4	629.6
			058/059	1062.0	612.1
Average index = 157.2			Average index = 452.2		

The employee productivity ratio of BPPN was fluctuating showing an average index of 157.2 thousand taking 044/045 as base year. After privatization the productivity has increased rapidly and reached to the average index of 452.2 Thus privatization helped to increase the productivity of the employees significantly. The increase in price may have resulted such a significant increase in the ratio.

Table 13: Employee Productivity Ratio of BPPN

(in terms of '000 metric ton)

Before privatization			After privatization		
Year	Employee productivity ratio	Index	Year	Employee productivity ratio	Index
044/045	7.9	100.0	049/050	N/A	N/A
045/046	11.0	139.2	050/051	11.1	140.5
046/047	10.6	134.2	051/052	10.7	135.4
047/048	9.1	115.2	052/053	8.6	108.9
048/049	8.8	111.4	053/054	20.8	263.3
			054/055	22.6	286.1
			055/056	22.9	289.9
			056/057	17.8	225.3
			057/058	22.0	278.5
			058/059	23.3	294.9
Average Index = 120			Average Index = 224.8		

The employee productivity ratio was decreasing before privatization showing an average index of 120 taking 044/045 as the base year. After privatization the ratio followed increasing trend bringing an average index of 224.8 thousand metric ton. Thus the productivity of employees increased significantly, after privatization which is one of the few positive features of the company after privatization.

V. MAJOR FINDINGS

Though BPPN Ltd. has substantial improvement in its capacity, it cannot utilize that capacity as expected but decreased after privatization. Its production and sales was improved after privatization however in term of average production sales ration there was no significant improvement. This indicated that it cannot generate adequate sales commensurate to production. There was also poor average ratio of assets turnover after privatization indicating worsening situation of assets utilization. In terms of profitability ratio too privatization has not made any contribution to make positive net worth. Though it has minimized negative net worth to some extent, which was negligible. It has also affected the return on sales and return on investment which were turned to negative after privatization. The increasing interest liability as the substantial loan borrowed by the mill after privatization may have caused such a situation. But as regard to the number of employees it was increasing after privatization. It was only in 058/059, it turned downward. However after privatization there has been an increasing trend of employees significantly. The increase in productivity might be supported by increase in price. Thus, the performance in terms of number of employees and their productivity in terms of sales, which have fluctuated before privatization improved significantly after privatization. One motive of privatization is to generate the employment opportunity. But the problem faced by the factory now is in its operational activities. Management cited many problems from the big chunk of loses to frequent power cuts, shortage of raw material, price hike of raw materials to the discriminating tax policy of exempting imported text books from import duty and value added tax. Once it was successful in carving niche for exporting in Japan. But it has now been unable to reach the market. On the other hand the management was charged that the problem cited was not reasonable. They are only the reasons that pushed the factory toward collapse and the intention of purchase of the factory in 1992 was because of its land value. Once the finance ministry had rejected the management's proposal of selling 60 bighas of its land plot to raise working capital. The pressure from the government to the factory is now to show the real reason for shorting down the factory. Thus factory is now in a very critical position.

VI. CONCLUSION

Capacity expansion after privatization has contributed to improve production, sales and employees productivity. However, the profitability situation which was basically improving and was relatively satisfactory before privatization turned into negative after privatization, this in fact has worsened the overall situation of the factory meaning that

privatization has not helped to improve the performance of the factory. This has helped to conclude that only the change in ownership is not enough for success. The most important thing is that there must be proper market study, professionalism and transparency under part of management and monitoring, supportive government policy and regularity in the part of government. Previously, profits used to be prime motive behind business. But this has extended to people and planet also. Neplease organization could not meet even the profit motive, how could they meet people and planet motive as change management realm? Methodological constraints are still there for best results.

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