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Measuring Performance, Efficiency of Allied & Muslim Commercial Banks Before after Privatization Period

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Abstract

This research investigates the comparative analysis of the performance, Efficiency of Allied & Muslim Commercial Bank before and after Privatization period. The primary resource of data for empirical analysis is the balance sheets of target years collected from the different branches of Allied bank and Muslim Commercial Bank in Khairpur and Sukkur. The balance sheets along with the income statements of those banks were also collected. For secondary source, year wise reports from various library sources were collected and studied. The reports from the State Bank of Pakistan were also brought to the analysis to see the comparison and impact of privatization and role of the central bank in the process of privatization. The comparative analysis and efficiency levels were measured by using nonparametric statistical tests, regression analysis, and the Reliability model. The reliability model used for the first time in management sciences research has unique features. The model predicted the life of components of the banking business. The expected success and failure of the indicators before and after privatization are assessed by using the reliability model. In nonparametric statistical tests applied were the Chi-square, Sign Test, Sign rank test and Wilcoxon and Hotelling's T tests. Means were compared by using t-test.

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Introduction

During 1974 the Australasia Bank was nationalized and the name was changed. The new name was Allied Bank of Pakistan. In the first year of nationalization the Allied Bank proved to be an extraordinary triumph. The profits surpassed one billion rupees and the accumulation of deposits increased by 50 % and crossed Rs. 1460 million. Likewise the investment increased to 72 %. This change was experienced by the country for first time in the sector of banks. In 1974 alone the new 116 branches throughout country were started. The ABL involved in most of Government's earning programs especially Agriculture. The progress in 17 years had been remarkable. The number of branches increased to 748 before 1991. The deposits, Investments and Advances ascended to billions of the business. Three branches in United Kingdom were started before 991. After 1991 the ABL was privatized and the shares were purchased by their own employees. This was first instance of purchasing any financial institution by its own employee's world over. Few years of privatization made up the bank as the leading financial body of the country. Within few years, the reserves and capital of the Bank crossed 1.53 billion rupees and 87.54 billion rupees in assets. The deposits equaled some 76.04 billion rupees. Many years of privatizations the position of the ABL was viewed and acknowledged as privileged bank of Pakistan and among the best foremost banks of the country. In the year 2004 a policy reform was intro-

duced for capital. In the wake this policy reform the bank was relocated to a group of companies.

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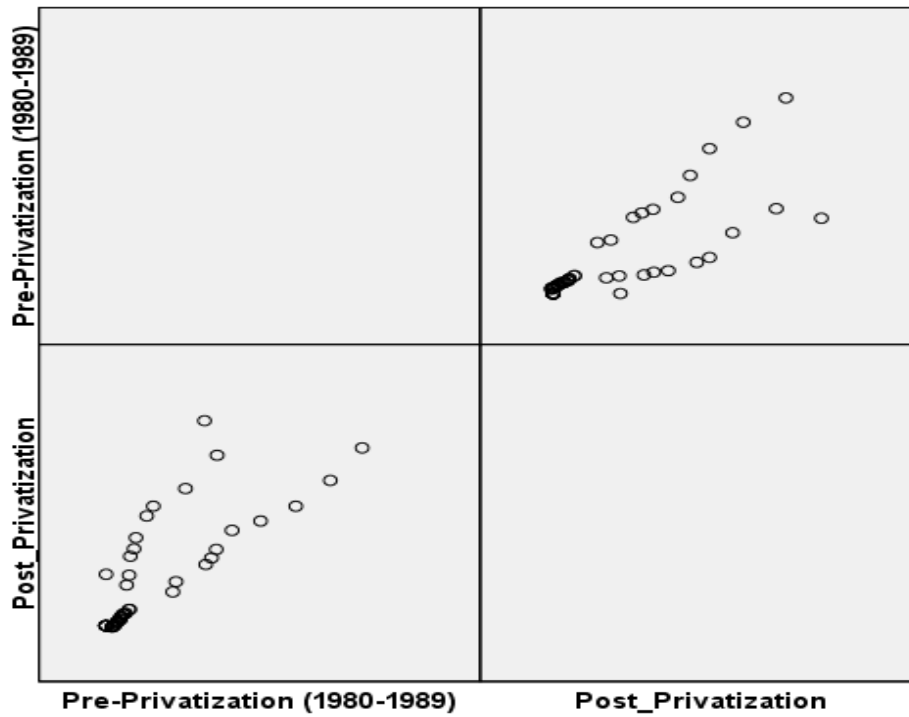


Figure 4.1: Pre and Post- Privatization Comparison of ABL

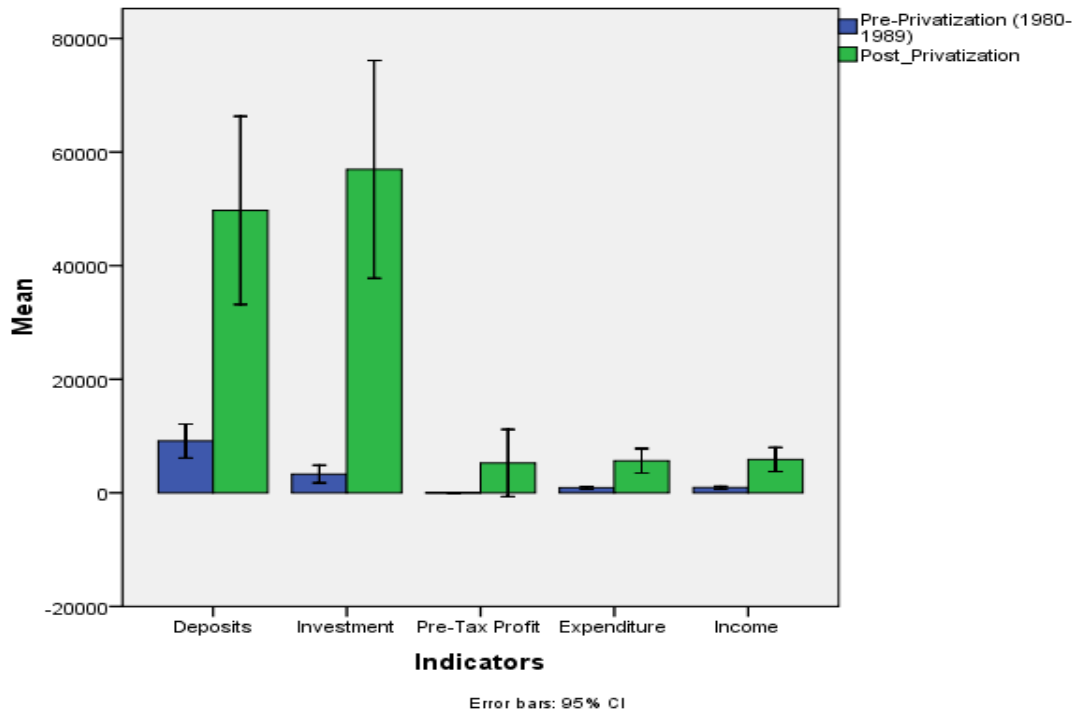


Figure 4.2: Box- Plot of Pre and Post Privatization of ABL

Table 4.3: Model Description of Pre and Post Privatization of ABL

Descriptives

			Std. Deviation	Std. Error	95% Confidence Interval for Mean		Between-Component Variance
					Lower Bound	Upper Bound	
Pre-Privatization (1980-1989)	Model	Fixed Effects	2119.866	299.794	2250.14	3457.78	1.334E7
		Random Effects		1660.790	-1757.13	7465.05	
Post_Privatization	Model	Fixed Effects	16365.848	2314.480	20026.77	29349.97	6.635E8
		Random Effects		11749.553	-7933.62	57310.36	

The Muslim Commercial Bank Limited

The origin of the Muslim Commercial Bank is traced from Ccutta, India and become operative for first time on 9 July 1947, 35 days before the partition of India. After partition of India the bank was relocated in Bengal from where it was again moved to Karachi In 1956 due to partition of East Pakistan. The Muslim Commercial Bank is now functioning in three main areas i.e. corporate banking, Commercial system of banking and consumer banking. In its corporate business the bank covers enterprises supported by the government, national and multinational enterprises of the country. The Bank is providing also the facility of assets and other concerned products to common people and salaried persons. The MCB is a largest network of banking with latest technological competence. The service is provided 24 hours at all the 233 online branches. The Bank is out to satisfy its customers by introducing various schemes to facilitate them. The schemes include Rupee Traveller Cheque and Gift Cheques.

Confiscation the MCB

According to the Act of Nationalization 1974, The Muslim Commercial Bank (MCB) was confiscated by the then government of Pakistan. In the same year, another bank, namely the Premier Bank reached the level of bankruptcy and was integrated with the MCB. Key changes made in banks in nationalization period. This caused the banks intrusion of labor and excessive employment spontaneously. This act of political governments left negative impact on the efficacy of the system of banks in Pakistan. During the year 1991, the

financial institutions and other public enterprises were privatized. In the wake of this privatization process the

MCB was also privatized. At first instance, some twenty six percent shares to a group of entrepreneurs called the National Group. By acquiring twenty four percent more shares of the bank by the group, The National Group became the dominant stake holder of the MCB by acquiring fifty percent of the shares. Another share of twenty five percent was put on sale to general public business personals. The MCB showed a high level of performance and development after the bank was privatized and became one of the principal banks of Pakistan.

Causes of the bank’s privatization

The government of Pakistan reviewed the economic and financial structure of country in year 1991. The bankruptcy of some of the financial institutions and tiresome progress of some public enterprises, the government intended to start the program of privatization on top priority. The major reforms were focused in financial sector especially banks. The functioning of MCB and some other banks was satisfactory and think tank suggested that already exuberant institutions in financial sector should be brought to the process of privatization to spectacle the process a success. The MCB and the ABL in banks were brought to the process of privatization initially.

Global monetary agencies persistently persuaded the governments of Pakistan to enhance the capital of nationalize banks whereas the nationalized banks were enduring in restricted environment of competency.

The then government of 1991 took measures to raise capital and bring the financial institutions into an open environment of competency. In wake of financial reforms, the privatization program was launched which proved to

be mile stone in the development of economy of Pakistan in 1990s. The intensity of capital in hands of certain people or group was dissociated by the act of privatization.

Performance Analysis before Privatization

Table 4.4: Performance Analysis of MCB before Privatization (Million Rs.)

Years	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Authorized capital	524	524	524	524	524	524	1,000	1,000	1,000	1,000
Paid up share Capital	262	262	262	262	262	262	576	576	576	576
Reserves	97	125	200	275	409	669	669	790	945	970
Deposits	10,881	12,735	15,705	16,934	19,922	21,590	22,592	21,899	25,325	27,691
Advances	7,576	9,782	18,898	11,184	11,875	13,803	13,110	13,096	15,548	18,987
Investments	3,273	3,458	3,825	4,204	4,789	6,151	9,837	9,552	10,991	10,688
Net Assets	13,139	15,607	17,867	19,203	22,845	25,630	28,639	28,373	32,499	36,294
Pre-tax Profit	95	125	130	133	133	144	199	227	250	159
No. of Branches	1,365	1,356	1,324	1,286	1,271	1,263	1,265	1,271	1,270	1,283
No. of Employees	12339	12397	12,567	12,684	12591	12,817	12,845	12,685	12890	12,904

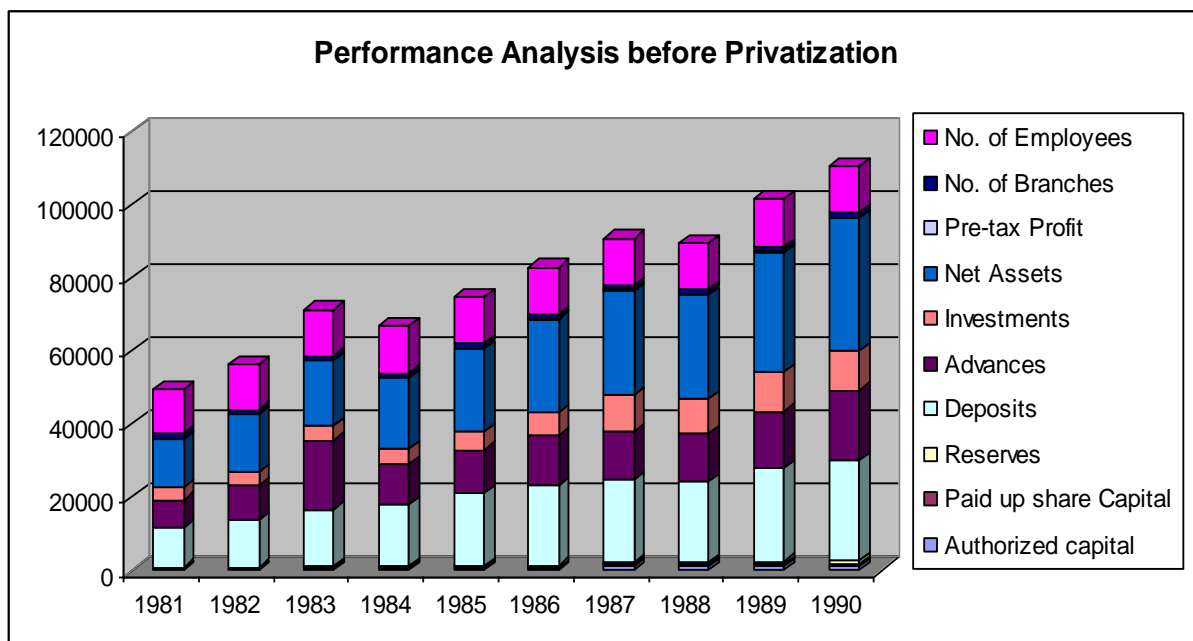


Figure 4.4: Bar Chart showing Performance of MCB before Privatization

Table 4.5: Indicators selected for modeling MCB before Privatization

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Income	2227	3210	12567	2903	2198	1980	1698	1531	1755	1745
Assets	13139	15607	17867	19203	22845	25630	28639	28373	32499	36294
Deposits	10881	12735	15705	16934	19922	21590	22592	21899	25325	27691
Pre-tax Profit	95	125	130	133	133	144	199	227	250	159
Employees	12339	12397	12567	12684	12591	12817	12845	12685	12890	12904
Investment	3273	3458	3825	4204	4789	6151	9837	9552	10991	10688

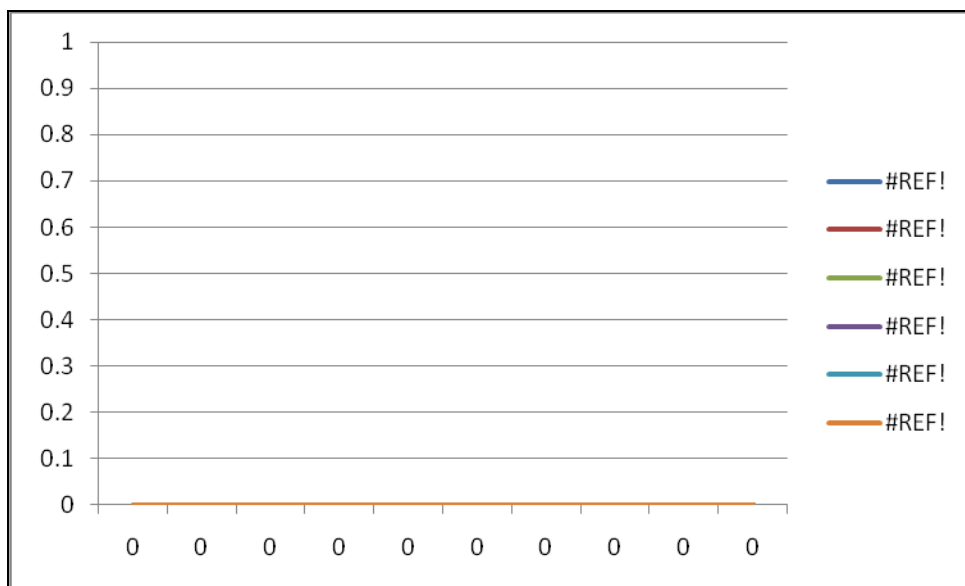


Figure 4.5: Trend of the indicators before privatization

Table 4.6: MCB after Privatization

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Income	2034	2448	3023	4007	1951	1669	1717	1797	2092	2278
Assets	45201	62424	75427	98406	119713	135479	150095	149726	158585	174715
Deposits	35029	50013	62783	81452	99641	113005	124391	123822	130325	135990
Pre-tax Profit	213	265	346	708	929	268	1235	947	1211	1322
Employees	13031	12792	13768	13892	14522	14729	13610	12858	12557	12133
Investment	13047	24187	27864	36159	43952	47553	58095	55387	45609	36481

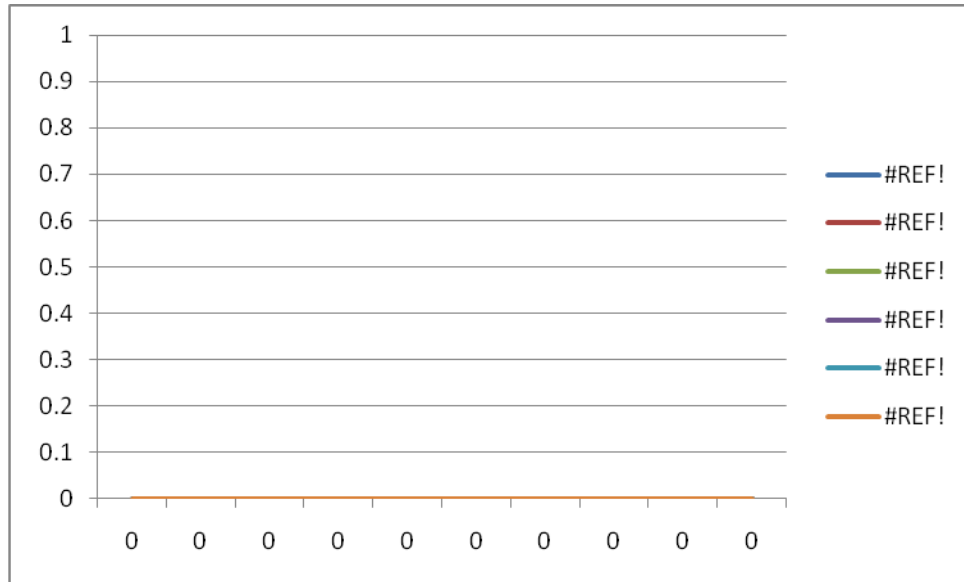


Figure 4.6: Trend of indicators of MCB after Privatization

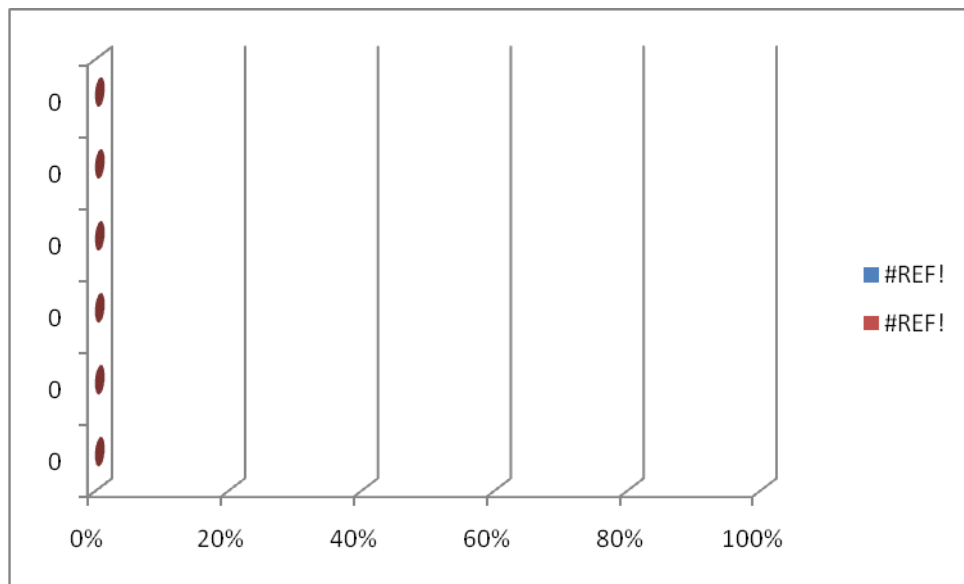


Figure 4.7: Overall performance of MCB pre and post privatization

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model. In nonparametric statistical tests applied were the Chi-square, Sign Test, Sign rank test and Wilcoxon and Hotelling's T tests. Means were compared by using t-test.

Table 6.43 Profitability of ABL and MCB in both periods

	Allied Bank Limited		Muslim Commercial Bank	
	Pre-Privatization	Post-Privatization	Pre-Privatization	Post-Privatization
Deposit	90408	497288	195274	956451
Income	9198	58755	31814	23016
Pre-Tax Profit	337	269456	1595	7444
Investment	32994	569354	66768	388334

Figure 6.15: Comparative plot of ABL and MCB in both eras

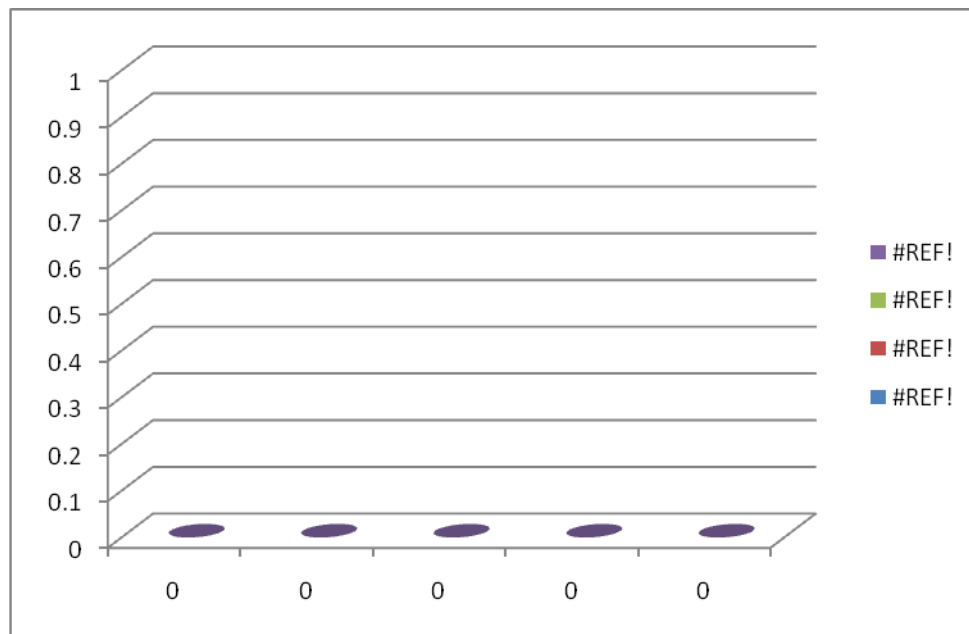


Table 6.44: M-Estimators for ABL and MCB in both eras

	Bank	Huber's M-Estimator ^a	Tukey's Biweight ^b	Hampel's M-Estimator ^c	Andrews' Wave ^d
Pre-Privatization	Allied Bank	21460.94	13658.63	21989.05	13649.40
	Muslim Commercial Bank	49291.00	33229.19	47835.43	33226.38
Post-Privatization	Allied Bank	378584.42	366267.48	360621.75	366172.39
	Muslim Commercial Bank	224579.16	136424.03	239762.52	127729.34

- a. The weighting constant is 1.339.
- b. The weighting constant is 4.685.
- c. The weighting constants are 1.700, 3.400, and 8.500
- d. The weighting constant is 1.340*pi.

Table 6.45: Tests of Normality of both periods of ABL and MCB

	Bank	Kolmogorov-Smirnov ^a			Shapiro-Wilk		
		Statistic	df	Sig.	Statistic	df	Sig.
Pre-Privatization	Allied Bank	.252	4	.	.880	4	.339
	Muslim Commercial Bank	.283	4	.	.886	4	.365
Post-Privatization	Allied Bank	.239	4	.	.938	4	.644
	Muslim Commercial Bank	.265	4	.	.857	4	.249

a. Lilliefors Significance Correction

The following figures show a comparative analysis of the progress of the components of both banks in both study periods. The box plots clearly illustrate the overall

evolution of the banks. The efficacy of the MCB in general is has been increased rapidly after the bank was privatized.

Figure 6.16: Histograms showing pre-privatization comparison of performance

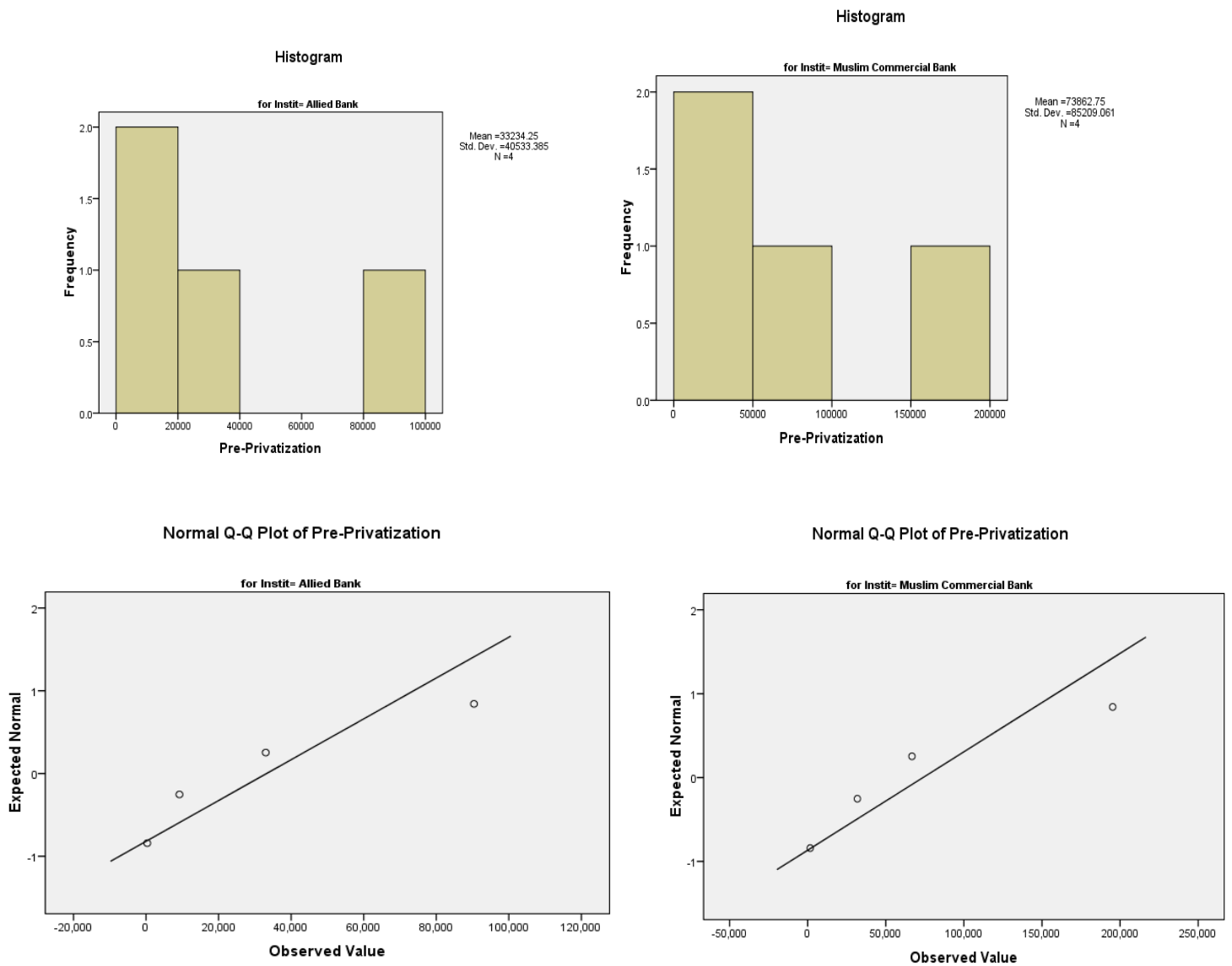


Figure 6.17: Normal Q-Q Plot of pre-privatization of ABL and MCB

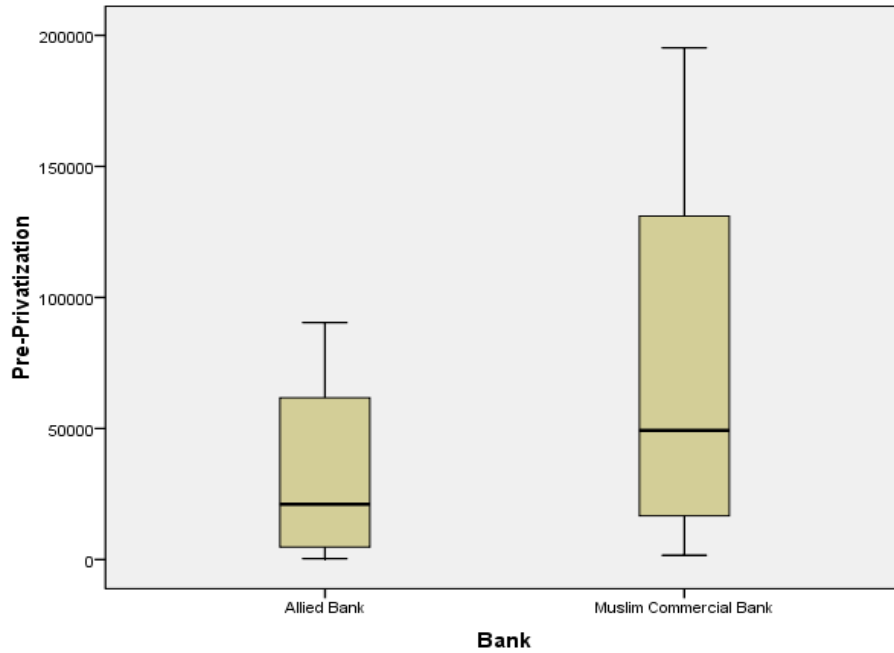


Figure 6.17: Box plot of ABL and MCB performance before privatization

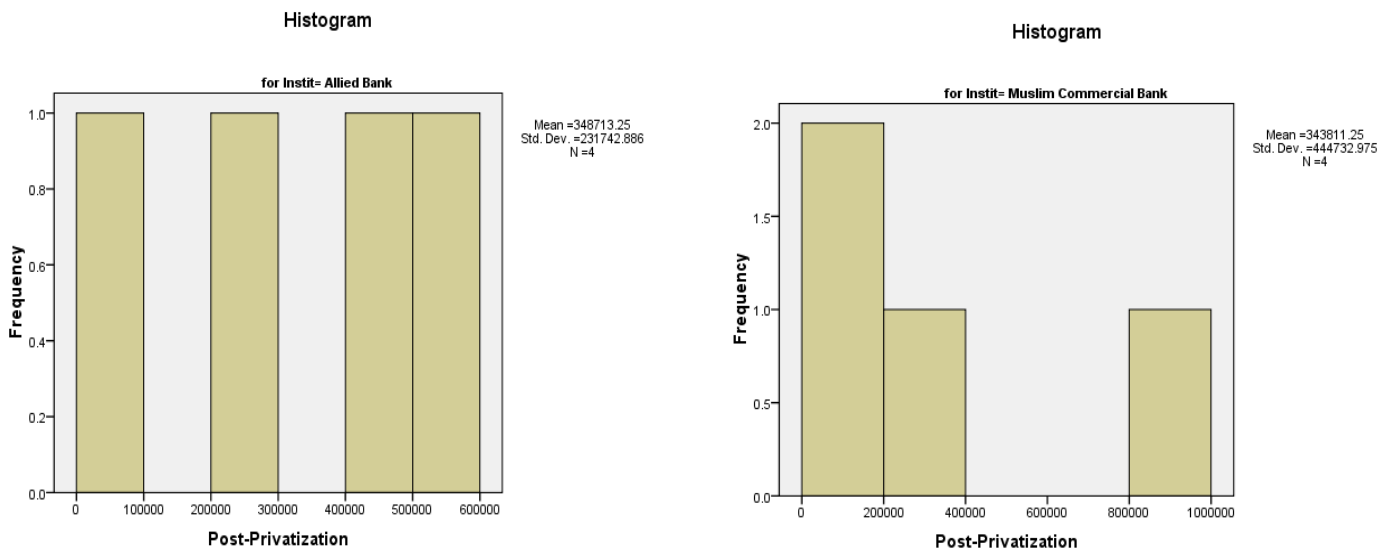


Figure 6.19: Histograms showing post privatization performance of ABL and MCB

Figure 6.20: Normal Q-Q plot of ABL and MCB performance in post-privatization era

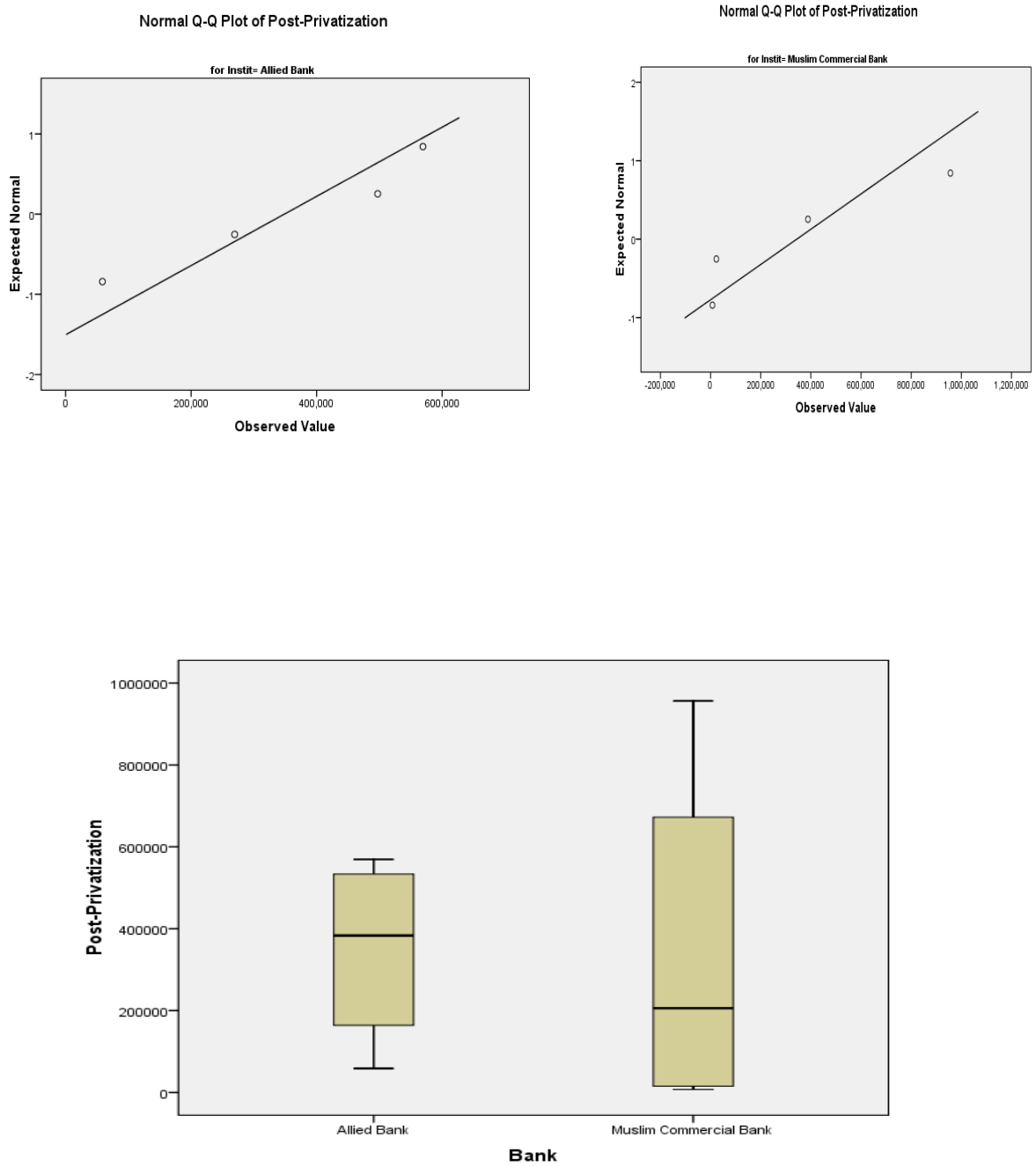


Figure 6.21: Box plots of ABL and MCB during post-privatization period

Table 6.46: Paired Samples Statistics of pre and post-privatization of indicators and Banks

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	Pre-Privatization	53548.50	8	65478.424	23150.119
	Indicators	2.50	8	1.195	.423
Pair 2	Post-Privatization	346262.25	8	328312.702	116076.069
	Indicators	2.50	8	1.195	.423
Pair 3	Pre-Privatization	53548.50	8	65478.424	23150.119
	Bank	1.50	8	.535	.189
Pair 4	Post-Privatization	346262.25	8	328312.702	116076.069
	Bank	1.50	8	.535	.189
Pair 5	Pre-Privatization	53548.50	8	65478.424	23150.119
	Post-Privatization	346262.25	8	328312.702	116076.069

Table 6.47: Paired Samples Correlations of Indicators and Banks

		N	Correlation	Sig.
Pair 1	Pre-Privatization & Indicators	8	-.545	.163
Pair 2	Post-Privatization & Indicators	8	-.235	.575
Pair 3	Pre-Privatization & Bank	8	.332	.422
Pair 4	Post-Privatization & Bank	8	-.008	.985
Pair 5	Pre-Privatization & Post-Privatization	8	.860	.006

Table 6.48: Paired Samples Test Indicators and Banks in pre and post-privatization periods

		Paired Differences					t	df	Sig. (2-tailed)
					95% Confidence Interval of the Difference				
		Mean	Std. Deviation	Std. Error Mean	Lower	Upper			
Pair 1	Pre-Privatization - Indicators	53546.000	65479.075	23150.349	-1195.877	108287.877	2.313	7	.054
Pair 2	Post-Privatization - Indicators	346259.750	328312.983	116076.168	71783.227	620736.273	2.983	7	.020
Pair 3	Pre-Privatization – Bank	53547.000	65478.247	23150.056	-1194.184	108288.184	2.313	7	.054
Pair 4	Post-Privatization – Bank	346260.750	328312.706	116076.070	71784.459	620737.041	2.983	7	.020
Pair 5	Pre-Privatization - Post-Privatization	-292713.750	274009.993	96877.162	-521791.837	-63635.663	-3.021	7	.019

A comparative analysis was made by taking two banks i.e. Allied Bank Limited and Muslim Commercial Bank. The focus was given on the impact assessment of privatization. The study period was taken from 1980 to 2000. The results have been mixed. The indicators analyzed individually at first instance to examine their validity, reliability, efficacy and growth in both the

periods of nationalization and privatization. Thereafter, the components of the bank performance were compared from bank to bank and era to era. In the end the overall progress of two banks were taken and measured their stability, reliability, development and efficacy in both, pre-privatization and post-privatization periods. The analysis is concluded as under:

- Both the banks i.e. Allied Bank and The Muslim Commercial Bank had their own competitive environment before the privatization. The banks improved regularly the deposits, investment, pre-tax profit and assets.

- Some indicators like employment rate and the income were progressing slowly and remained unchanged even after the privatization process. That is to say that the privatization process brought about no impact on some of the components of banking development. Reason behind this lacking may be the policy reforms in financial matters by the frequently changing governments and legal obligations of the privatization process.

- The Allied Bank Limited showed a slow progress as compared to the Muslim Commercial Bank throughout the privatization period. The reasons explored are the transfer of the bank from pre-nationalization to the nationalization without taking in account of the capital dividends on certain vivid policy measures. The other reason found that

The bank shares were sold to its own employees and the employees despite of showing honest struggle could not achieved the high targets as compared to the Muslim Commercial bank which was sold to group of companies. It was only in 2004 that the shares of the ABL were relocated to a group of companies.

- The progress of the Muslim Commercial Bank was satisfactory even in the pre-privatization era. Therefore, overall development in the indicators under study remained satisfactory after the privatization act. The performance increased not in the technical efficacy but in technological incursion in the environment of competition client satisfaction.

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